COMPLETED

Y4.En2/3:99-47

426

TELECOMMUNICATIONS TRADE

N-1120 ORIGINAL

HEARINGS

BEFORE THE

SUBCOMMITTEE ON TELECOMMUNICATIONS,
CONSUMER PROTECTION, AND FINANCE

AND THE

SUBCOMMITTEE ON COMMERCE,
TRANSPORTATION, AND TOURISM

OF THE

COMMITTEE ON ENERGY AND COMMERCE
HOUSE OF REPRESENTATIVES

NINETY-NINTH CONGRESS

FIRST SESSION

ON

TELECOMMUNICATIONS TRADE OVERVIEW

MARCH 27 AND 28, 1985

H.R. 3131

A BILL TO IDENTIFY AND REDUCE BARRIERS TO, AND DISTORTIONS OF, INTERNATIONAL TRADE AFFECTING UNITED STATES SUPPLIERS OF TELECOMMUNICATIONS EQUIPMENT AND SERVICES IN INTERSTATE AND FOREIGN COMMERCE

OCTOBER 1, 1985

Serial No. 99-47

Printed for the use of the Committee on Energy and Commerce

U.S. GOVERNMENT PRINTING OFFICE
56-611 O WASHINGTON : 1986

I BEST CO

COMMITTEE ON ENERGY AND COMMERCE

JOHN D. DINGELL, Michigan, *Chairman*

JAMES H. SCHEUER, New York
HENRY A. WAXMAN, California
TIMOTHY E. WIRTH, Colorado
PHILIP R. SHARP, Indiana
JAMES J. FLORIO, New Jersey
EDWARD J. MARKEY, Massachusetts
THOMAS A. LUKEN, Ohio
DOUG WALGREN, Pennsylvania
BARBARA A. MIKULSKI, Maryland
AL SWIFT, Washington
MICKEY LELAND, Texas
RICHARD C. SHELBY, Alabama
CARDISS COLLINS, Illinois
MIKE SYNAR, Oklahoma
W.J. "BILLY" TAUZIN, Louisiana
RON WYDEN, Oregon
RALPH M. HALL, Texas
DENNIS E. ECKART, Ohio
WAYNE DOWDY, Mississippi
BILL RICHARDSON, New Mexico
JIM SLATTERY, Kansas
GERRY SIKORSKI, Minnesota
JOHN BRYANT, Texas
JIM BATES, California

JAMES T. BROYHILL, North Carolina
NORMAN F. LENT, New York
EDWARD R. MADIGAN, Illinois
CARLOS J. MOORHEAD, California
MATTHEW J. RINALDO, New Jersey
WILLIAM E. DANNEMEYER, California
BOB WHITTAKER, Kansas
THOMAS J. TAUKE, Iowa
DON RITTER, Pennsylvania
DAN COATS, Indiana
THOMAS J. BLILEY, Jr., Virginia
JACK FIELDS, Texas
MICHAEL G. OXLEY, Ohio
HOWARD C. NIELSON, Utah
MICHAEL BILIRAKIS, Florida
DAN SCHAEFER, Colorado
FRED J. ECKERT, New York

Wm. Michael Kitzmiller, *Staff Director*
Sharon E. Davis, *Chief Clerk/Administrative Assistant*
Donald A. Watt, *Printing Editor*
Arnold I. Havens, *Minority Counsel*

Subcommittee on Telecommunications, Consumer Protection, and Finance

TIMOTHY E. WIRTH, Colorado, *Chairman*

AL SWIFT, Washington
MICKEY LELAND, Texas
CARDISS COLLINS, Illinois
JOHN BRYANT, Texas
JIM BATES, California
THOMAS A. LUKEN, Ohio
MIKE SYNAR, Oklahoma
W.J. "BILLY" TAUZIN, Louisiana
WAYNE DOWDY, Mississippi
JIM SLATTERY, Kansas
JAMES H. SCHEUER, New York
HENRY A. WAXMAN, California
EDWARD J. MARKEY, Massachusetts
JOHN D. DINGELL, Michigan
(Ex Officio)

MATTHEW J. RINALDO, New Jersey
CARLOS J. MOORHEAD, California
THOMAS J. TAUKE, Iowa
DON RITTER, Pennsylvania
DAN COATS, Indiana
THOMAS J. BLILEY, Jr., Virginia
JACK FIELDS, Texas
MICHAEL G. OXLEY, Ohio
HOWARD C. NIELSON, Utah
JAMES T. BROYHILL, North Carolina
(Ex Officio)

Marc E. Lackritz, *Staff Director/Chief Counsel*
Thomas Rogers, *Senior Counsel*
Michael S. Perko, *Policy Analyst*
Rodney L. Joyce, *Associate Minority Counsel*

SUBCOMMITTEE ON COMMERCE, TRANSPORTATION, AND TOURISM

JAMES J. FLORIO, New Jersey, *Chairman*

BARBARA A. MIKULSKI, Maryland
DENNIS E. ECKART, Ohio
BILL RICHARDSON, New Mexico
RALPH M. HALL, Texas
PHILIP R. SHARP, Indiana
W.J. "BILLY" TAUZIN, Louisiana
WAYNE DOWDY, Mississippi
JIM SLATTERY, Kansas
GERY SIKORSKI, Minnesota
JOHN D. DINGELL, Michigan
(Ex Officio)

NORMAN F. LENT, New York
THOMAS J. TAUKE, Iowa
DON RITTER, Pennsylvania
DAN COATS, Indiana
JACK FIELDS, Texas
DAN SCHAEFER, Colorado
JAMES T. BROYHILL, North Carolina
(Ex Officio)

GREGORY E. LAWLER, *Staff Director*
M. BRUCE GWINN, *Professional Staff Member*
REBECCA M.J. GOULD, *Associate Minority Counsel*

BLANK PAGE

CONTENTS

Hearings held: Page

March 27, 1985 (Telecommunications Subcommittee) ... 1
March 28, 1985 (Commerce Subcommittee) ... 121
October 1, 1985 (Joint Subcommittees) ... 205
Text of H.R. 3131 ... 211

Testimony of:

Anderson, Stanton D., on behalf of Communications Industry Association of Japan ... 383
Bergsten, Frederick, director, Institute for International Economics ... 20
Borrus, Michael, deputy director, Berkeley Roundtable on the International Economy, University of California, Berkeley ... 171
Easterling, Barbara J., executive vice president, Communications Workers of America ... 361
Frischkorn, Allen R., Jr., chairman, International Trade Committee, Information and Telecommunications Technologies Group, Electronic Industries Association ... 96
Garfinkel, Eric I., on behalf of Communications Industry Association of Japan ... 88
Hinds, John A., on behalf of American Telephone & Telegraph Co ... 308
Lee, Yong Tuck, president, M/A-COM MAC Division, and also American Electronics Association ... 320
McDonnell, John J., group vice president, Information and Telecommunications Technologies Group ... 332
Marshall, C. Travis, on behalf of Information and Telecommunication Technologies Group, Electronic Industries Association ... 158
Moore, William G., Jr., chairman, Board of Directors, American Electronics Association ... 74
O'Connor, William Y., president, Executone, Inc ... 398
Olmer, Lionel H., Under Secretary for International Trade, Department of Commerce ... 123
Samuel, Howard D., president, Industrial Union Department, AFL-CIO ... 23
Smart, Bruce, Under Secretary for International Trade, Department of Commerce ... 245
Spievack, Edwin B., president, North American Telecommunications Association ... 349
Strauss, Robert S., Washington, DC ... 8
Wilson, S. Bruce, Assistant, Industry and Services, U.S. Trade Representative ... 288
Wolf, Allen, former Deputy Trade Representative of the United States ... 158
Wood, Robert B., director, research and education department, International Brotherhood of Electrical Workers ... 191, 370
Yochelson, John N., director, International Business and Economic Center for Strategic and International Studies, Georgetown University ... 50

Material submitted for the record by:

American Electronics Association, letter, dated May 31, 1985, from William Moore to Chairman Wirth, responses to questions on international telecommunications ... 119
Communications Workers of America ... 203
Dingell, Hon. John D ... 7
Electronic Industries Association, letter, dated April 17, 1985, from Allen Firschkorn to Chairman Wirth re answer to question asked during the colloquy portion ... 117
Institute of Electrical and Electronics Engineers, Inc ... 418

INTERNATIONAL TELECOMMUNICATIONS TRADE: AN OVERVIEW

WEDNESDAY, MARCH 27, 1985

House of Representatives,
Committee on Energy and Commerce,
Subcommittee on Telecommunications,
Consumer Protection, and Finance,
Washington, DC.

The subcommittee met, pursuant to notice, at 2 p.m., in room 2123, Rayburn House Office Building, Hon. Timothy Wirth (chairman) presiding.

Mr. Wirth. Today the subcommittee holds the first in a series of hearings on international trade in telecommunications equipment and its impact on the U.S. economy. Our hearing this afternoon will provide the subcommittee with an overview of the complex set of variables that combine to affect the international competitiveness of the U.S. telecommunications industry.

The growing United States trade imbalance in telecommunications equipment and products and the ongoing negotiations over access by American companies to the Japanese telecommunications market is finally receiving the increased legislative and political attention that it deserves. Since 1981, this subcommittee has invested considerable time and effort in an attempt to focus industry and government on these issues of critical importance to the telecommunications industry and the entire economy.

Over the last few years, the subcommittee has been monitoring the performance of the NTT Procurement Agreement which the United States entered into with Japan in 1980 in an effort to open the Japanese telecommunications market to U.S. suppliers. Despite a very modest increase in the level of sales by United States companies to NTT in recent years, the numbers are still abysmally low.

This is part of the overall U.S. trade deficit with Japan in telecommunications equipment and products, which has reached alarming proportions. Since the NTT Procurement Agreement was signed in 1980, our bilateral trade deficit with Japan in telecommunications equipment and products has increased nearly fourfold. In just the past 2 years, our trade imbalance with Japan in the telecommunications sector has almost doubled—from over $960 million in 1982 to nearly $1.9 billion in 1984. Moreover, in 1983, for the first time in over 10 years, the U.S. trade balance with the world in telecommunications equipment and products showed a deficit of $56 million. Last year, the overall U.S. trade deficit in the telecommunications sector jumped to $608 million.

This is a disturbing trend, particularly when the United States enjoys a significant comparative advantage in the telecommunications sector. A continuation of this dangerous trend is unacceptable and could jeopardize our world leadership and technological preeminence in telecommunications.

With a series of regulatory and judicial decisions culminating in the AT&T divestiture, foreign communications suppliers now enjoy unencumbered access to the U.S. market, the largest telecommunications market in the world. As Japan and other countries begin privatizing their giant government-controlled telephone monopolies, the United States Government and American industry are presented with a real opportunity—and a real challenge—to ensure that all barriers to United States companies competing freely and fairly in the world market are removed. The U.S. telecommunications industry should—and must—have equivalent opportunities in foreign markets.

However, market access alone will not ensure U.S. telecommunications companies a portion of the world market and reverse the mounting trade deficit in telecommunications equipment. Other factors also have a significant influence on the international competitiveness of American telecommunications companies. The value of the dollar, research and development expenditures by both the public and private sector, and the availability of highly trained and skilled personnel are just a few of the factors that directly affect the competitiveness of the industry. To overlook or neglect these factors will result in an incomplete picture of the problem and, ultimately, lead to counterproductive solutions.

We are fortunate to have with us as our lead witness today the Honorable Robert Strauss, the U.S. Trade Representative under President Carter. Ambassador Strauss was instrumental in negotiating the first NTT Procurement Agreement, and will help us frame the issues that affect the competitiveness of U.S. companies in world markets generally, and the telecommunications market specifically. We are pleased that Ambassador Strauss could join us today and look forward to his testimony.

The panel following Mr. Strauss will provide the subcommittee with a framework for analyzing and evaluating the various factors that must be considered in addressing international trade issues. The second panel will focus on the specific issues related to access to foreign telecommunications markets, particularly Japan.

At this time I would like to note and commend the recent efforts of the U.S. Chamber of Commerce in bringing together a wide array of trade associations and telecommunications companies, some of whom will testify today. The chamber is attempting to forge a consensus position for American industry on this important issue, and the subcommittee looks forward to working with this coalition.

It seems clear that congressional sentiment in favor of taking strong action is mounting, as the Japanese have not taken the dramatic steps necessary to improve opportunities for American telecommunications companies. The subcommittee will continue to monitor carefully the progress of the United States negotiators in opening the Japanese telecommunications market, and is prepared to take—alone or in cooperation with other committees of the Congress—whatever action is warranted.

Before asking Mr. Strauss for his testimony, the distinguished gentleman from Texas would like to speak

Mr. Bryant. I would first like to thank you for continuing to pursue this matter as you have during my tenure of service that I have enjoyed in the Congress. As a Dallasite and a great American, I welcome Mr. Robert Strauss to the witness stand.

And third, I would like to comment that 2 years ago I went to China and stopped in Japan on the way. I spoke with Japanese leadership then and there was not any improvement after we returned. A few months later, I sponsored a workshop in Dallas at the urging of this subcommittee, Chairman Wirth. Mr. Shinto, the head of the NTT, gave our companies an opportunity to talk to him about the problems we were having in penetrating their market. I understand there has been very little improvement since that time. Hopefully, we can find some answers for this problem.

Mr. Wirth. I want to commend you for hosting the procurement hearing in Texas. We also had a procurement seminar in San Francisco, one in Denver, one in Boston, and one in Washington. The subcommittee arranged five procurement seminars in which we tried to encourage and expose American companies to the potential of the Japanese market and to sort out some of the problems that they had experienced. Unfortunately, the success coming out of those seminars and many, many other efforts has not been nearly as great as you and I and I think other members of the subcommittee would have hoped, but we must keep trying.

Mr. Rinaldo.

Mr. Rinaldo. Thank you, Mr. Chairman. I certainly commend you for holding this hearing and our very distinguished witnesses for joining us today. The issue of telecommunications trade is one which has a bearing on hundreds of thousands of persons employed in this industry, many of whom work in my home State of New Jersey. Unlike other sectors of the economy which have suffered severe setbacks because of their failure to reinvest in state-of-the-art technology, this has not been the case with the telecommunications industry. In fact, I feel very strongly that we can take pride in the fact that last year alone American manufacturers spent $3.8 billion on research and development efforts. Yet despite their great efforts and our vast technological lead, manufacturing jobs have been lost to foreign imports. During the last 2 years we have gone from being a net exporter to a net importer of telecommunications equipment. While there are some who are prepared to sit back and analyze this problem to death before coming to the assistance of the American workers and the jobs that we are losing, I am not one of them. I quite frankly am greatly frustrated by the fact that the United States has become the world's one true free market while our manufacturers have the doors of commerce closed to them when they seek to export their products overseas.

Nowhere is this more apparent than in our trade with Japan. U.S. imports from this country totaled approximately $2 billion last year while our exports were a little more than $190 million. American companies seeking to enter this market face a myriad of nontariff barriers. The net result is that Japan remains a closed market where its manufacturers can amortize the fixed cost of production as well as research and development at home. This not only results in an indirect subsidy of their exports but also means that developing nations closed out of the significant Japanese market direct their larger proportion of their energies to the United States where no barriers to trade exist.

This subcommittee has grappled with this problem in the last Congress. Indeed long hours were spent in hearings over the last 3 years focusing in upon procurement standards established by the Nippon Telephone & Telegraph Co. that effectively kept competitors from entering the Japanese market. While Ambassador Brock signed an agreement with the Japanese Foreign Minister in January 1983, which would appear on its face to open up the Japanese market, the reality is that there has been little improvement since that time.

I therefore drafted legislation which would direct the Federal Communications Commission to cancel and deny legislation of all foreign equipment coming from countries that discriminate against American products. I have circulated the bill for public discussion and have heard not only from those who support my efforts but also from some who oppose any form of legislative effort in the trade arena. While I am basically a strong believer in free trade, I believe that it must be reciprocal. We must all play under the same rules.

I also feel that it is time for the world to recognize the limits of American patience and the day of the American pushover doesn't exist anymore. I feel that rhetoric will be ignored and action will be rewarded. It is time that we took the kind of action that is necessary.

Thank you very much, Mr. Chairman.

Mr. WIRTH. Thank you, Mr. Rinaldo.

Mr. Coats.

Mr. COATS. Thank you, Mr. Chairman. I am deeply interested in today's hearing and I thank you for calling it While I have always considered myself to be a staunch supporter of free trade, I am at the present time very deeply concerned. Our Government's rules and regulations in this country make it very easy for foreign companies to import their goods and services here and that is the way I think it should be, but unfortunately Government rules and regulations that have been imposed by our trading partners have made it extraordinarily difficult and many times impossible for U.S. companies to import their goods and services into our trading partners' countries. This is unfair and it is hurting American business. It is hurting the U.S. economy. This problem applies to a great deal of industries, but I think there is particular application to the telecommunications industry.

For several years we have heard and engaged in some strong rhetoric in this country and many different types of threats of retaliation, but I think that the time for rhetoric and threats is ending and ending very quickly. Unless we see our trading partners initiate some significant changes in their present policies, it is my strong opinion that we should institute action to provide incentives for foreign countries to end their unfair discrimination against imported goods and services. I will leave that definition of what those incentives should be to the wisdom of this committee and others studying the problem.

I want to work to help develop legislation this year that is credible, that provides strong incentives for our trading partners to end their discrimination. I know many of my colleagues on this committee are also interested in such legislation, and I look forward to working with all of them on this very serious and important issue.

Mr. WIRTH. I thank the gentlemen and would also add that we welcome him to the subcommittee, we are glad that we are organized and we look forward to his presence and contributions to our deliberations.

Mr. Synar.

Mr. SYNAR. Nothing.

Mr. WIRTH. Mr. Oxley.

Mr. OXLEY. Thank you, Mr. Chairman. I want to welcome our witnesses to today's hearing to begin the subcommittee's overview of international telecommunications trade. This is an important issue that will only increase in importance in the coming months. I particularly want to welcome Mr. Strauss, who has a great deal of credibility and experience in this area and I am certainly looking forward to what he has to say and his response to some of our questions.

The newspapers recently have been full of articles decrying our imbalance of trade with Japan, particularly in the telecommunications area. Many of us on this side of the aisle sent a letter to the President before his discussions with Mr. Nakasone, and subsequent press accounts would indicate that perhaps that letter had some effect in bringing the issues to a head. And as the negotiations have continued, it appears that it did indeed have some effect.

The imminent privatization of the Japanese telecommunications monopoly, NTT, has raised a number of interesting questions in this regard, not the least of which is to what degree this will facilitate or hinder the sale of American telecommunications equipment in Japan.

Our hearing today promises to be an interesting one. I look forward to hearing from the various groups represented at the witness table today.

Thank you, Mr. Chairman.

Mr. WIRTH. Thank you very much, Mr. Oxley.

Mr. Bliley.

Mr. BLILEY. Thank you, Mr. Chairman. I want to thank you for scheduling these hearings at this time. I would also like to join my colleagues in thanking our witnesses for coming before the subcommittee today as well.

Given the collective experience of our panels, I look forward to hearing sage testimony as to why we are where we are and how we get out.

I also look forward, Mr. Chairman, to hearing from the administration as soon as it is practical as to their progress in negotiations abroad. It is fairly obvious that the obstacles which our telecommunications industry faces come in all shapes and sizes and are both homegrown and imported. I know that our witnesses will tell us how the strength of the dollar is hampering our export efforts and is making imports cheap in comparison. There seems to be a common thought among even economists that the strength of our dollar is heavily attributable to the size of our Federal budget deficits. I hope to hear from the witnesses, their ideas about how to get these deficits under control and thus bring the dollar back into a more preferable alignment with other currencies without harming our domestic industries in the process by raising their taxes and their cost of doing business.

On the foreign side of the equation, I am very anxious to hear what the witnesses have to say about the possibilities for opening telecommunications markets abroad. If the Commerce Department were here, I would congratulate their negotiators for attempting to do what most consider impossible and that is to take on the historic and entrenched bureaucracies of other countries where language is but one of the barriers to our expansion. So I look forward to hearing what our witnesses have to say about what they believe we can reasonably expect from United States efforts to open foreign and particularly Japanese telecommunications markets.

Mr. Chairman, having been a member of this subcommittee when it considered deregulating what had been a permitted monopoly in the past, I am sure we agree that the task before us in fighting foreign bureaucracies will be herculean in comparison. With a proper understanding of how our economy hampers export opportunities and then to move on to knocking down tariff and nontariff trade barriers abroad, I look forward to working this issue to fruition.

Mr. **Wirth**. Thank you, Mr. Bliley. I know Mr. Rinaldo has a brief statement that he wanted to make.

Mr. **Rinaldo**. Mr. Chairman, unfortunately I have a long standing commitment on this very topic at a meeting in town at 2:30, and I wanted the record to show that my departure from here does not indicate any lack of interest in the subject. I think the record should also show, Mr. Chairman, that you and I, the minority and majority on this committee, have worked long and hard in an effort to try and work something out and take what we would call a cooperative route, but there hasn't been much progress. And quite frankly because of the small amount of progress, many members of this committee are frustrated and upset over what has taken place.

And, Mr. Chairman, I hope that you will agree with me—in fact, I am sure that you do from our previous conversations—that since dangling the carrot hasn't worked that maybe it is about time we started to use the stick instead of the carrot. And interestingly enough, I think that people ought to observe the fact that when members of this committee are this upset—people have tried to work things out with a cooperative approach without any type of legislative effort—just think how upset many other members of Congress must be at what is taking place.

And certainly, Mr. Chairman, I am pleased that you held this hearing. I am hopeful that we can come to agreement on a piece of legislation that will show the people who aren't playing on a level field that we are serious in our deliberations on this topic.

Thank you once again, Mr. Chairman, for your efforts in this very important area.

Mr. **Wirth**. I thank the gentleman from New Jersey. I would associate myself with his remarks and would ask unanimous consent at this point to insert as well in the record the opening statement by the chairman of the full committee, Congressman Dingell from the State of Michigan. Without objection, that will be included in the record at this point.

[The prepared statement of Mr. Dingell follows:]

STATEMENT OF HON. JOHN. D. DINGELL

Mr. Chairman, I commend you for holding this hearing on the critical issue of international telecommunications trade. The need to craft an effective and credible means to achieve equity in this international market is one of the top priorities facing the Congress this year.

Recent developments in the world market make this task especially urgent. Suppliers of telecommunications equipment based in foreign countries are rapidly making inroads into the U.S. domestic market. In 1983, our telecommunications balance of trade turned negative for the first time in history. From a surplus of $180 million in 1982, we moved to a deficit of $418 million in 1983. In 1984, this deficit is estimated to have more than doubled to $1 billion. The problem is especially acute with respect to Japan, which sends us $35 dollars worth of telecommunications equipment for every dollar's worth of equipment we send them.

In 1984, the divestiture of the Bell Operating Companies from their principal supplier, Western Electric, substantially increased the openness of our domestic market. The breakup was a unilateral trade concession which has contributed to our trade deficit in telecommunications equipment. Our commitment to open markets contrasts sharply with Japan's attempt to retain a closed market as part of the restructuring of its domestic telecommunications market.

One may argue that the overvalued dollar contributes to our trade deficit and there is clearly some truth in this. The major problem, however, is not an overvalued dollar. It is market access. Even a properly valued dollar would not allow U.S. companies to sell effectively in many foreign markets.

Unfair foreign trade practices impose discriminatory barriers against the sale of U.S. telecommunications equipment abroad. These practices, including home supplier preferences in procurement, restrictive procurement approval procedures, local content requirements and limitations or prohibitions on U.S. foreign investment, are partly responsible for the growth in our telecommunications trade deficit.

Japan has a historic opportunity to move toward more open markets as part of the liberalization of its domestic telecommunications industry. I am not reassured by the course of our negotiations with them on this matter. I intend to examine with great care the agreements our trade negotiators reach with Japan.

I am proud of the openness of our domestic telecommunications market. However, there is no reason that reciprocal arrangements should be denied to U.S. firms. Our telecommunications market should continue to remain as open as the foreign markets we are seeking to enter. The alternative is to see world market share—and jobs for U.S. workers—slip out of our grasp.

The search for mechanisms to force reciprocal openness of foreign markets has begun. Last year, Senator Danforth suggested the use of tariffs as a trade leveraging tool; this year Chairman Fowler suggested the use of the FCC equipment registration program for similar purposes.

Last week, Senator Chafee, a long-time proponent of free trade, proposed the dramatic remedy of closing our market to telecommunications imports from Japan. From this strengthened bargaining position, our trade representatives could then negotiate conditions for opening our market.

Mr. Chairman, the overview and background provided by this hearing will help us to evaluate these proposals and other remedies which may be necessary to achieve greater equity in this international market.

Mr. **Wirth**. Mr. Nielson has just arrived, another new and valued member of the subcommittee. Mr. Nielson, do you have any opening comments you might like to make?

Mr. **Nielson**. Not at this time, thank you.

Mr. Wirth. Mr. Ambassador, again, welcome and we are delighted to have you here. I think you can see by the number of members and their concern that this issue has risen dramatically up the agenda of priorities and we are so pleased that you are here to help us try to sort this out today. Please proceed in whatever way you think would be most appropriate and helpful.

STATEMENT OF ROBERT S. STRAUSS, WASHINGTON, DC

Mr. Strauss. Thank you, Mr. Chairman. I would like to begin first by saying I have testified, I started to say thousands, but hundreds of times before the Congress, and the attendance of the members of this committee today is impressive. I am a fellow that is used to testifying before one or two people and I am delighted to see each of you here. And it speaks well for your deliberations. And for your deliberations, I want to thank you also, Mr. Chairman, and tell you that I am pleased to be here just because of the importance I place and I know each of you place in this subject we are talking about. These hearings are important because international trade and telecommunications specifically has reached a critical point.

I would like to digress before I go on and just make a statement for the record so there will be no misunderstanding. I practice law in this city and since we are speaking of telecommunications, the record should reflect that we represent telecommunication clients including AT&T. I can assure you that my vested interest in that is not near what my interest in the subject of trade generally and the problems we face in this country, but I did want the record to reflect it.

I think now it is impossible really to separate the health of the domestic telecommunications industry from events in the international trade arena generally; and therefore, I want to talk with you today about some of my thoughts regarding the present direction of the international trading system and the state of the U.S. trade policy in particular. I will focus my discussion today on international trade in the telecommunications sector, however. Let me begin by listing what I call a few givens with respect to the trading system today.

One, an open trading system is absolutely essential to a growing and prosperous domestic economy. We cannot have protectionism.

Two, there is no real open trading system today. What we call an open trading system is just not working—it's broke—so we better try to fix it.

Three, the key for American trade policy is obtaining access to foreign markets, very simply stated, but we should not simply close our markets in frustration over foreign unfair trade practices—protectionism, as I said, is not the answer.

Four, the GATT is weak, and in many was ineffective, but the GATT is essential and must be strengthened.

Five, if we rely on GATT alone, we cannot make it.

Six, it is hard to find a sector or industry where real free trade exists today: it doesn't exist in steel and it doesn't exist in autos, it doesn't exist in textiles and it doesn't exist in agriculture or aeroplanes, it doesn't exist in services and it doesn't exist in the telecommunications sector.

Seven, if we don't come to grips with the existing situation, it will increasingly cost us exports, jobs and economic vitality and the result will be that the political forces of protectionism will substantially close the doors on world trade as we have known it in this country for the last 40 years. That will be disastrous not just for this Nation, but for the entire free world.

So let me begin also by saying and being brutally frank in saying, that in my judgment there hasn't been an original thought in trade policy in the United States in the last 30 or 40 years and that includes, I must confess, my own term of office. The present crisis, however, does give us a real chance, I think, to look in a frank way to look at our trade policy—or lack of a policy—and try to develop a range of options that are appropriate for today's problems. Very simply stated, the world has dramatically changed in the United States through Republican and Democratic administrations alike, hasn't adapted to that change. This is not 1944 in Bretton Woods, NH. It is 1985 and the problems are entirely new and entirely different and that's the job you gentlemen face as you go about your duties.

The telecommunications sector provides an ideal illustration of the ways in which free trade and American economic interests are not adequately protected today, not protected by existing international trade agreements, institutions, or through the implementation of U.S. trade policy.

We have deregulated our own telecommunications market. While some of our foremost competitive resources remain shackled by outmoded regulatory rules, we have thrown the doors wide open to our foreign competitors, who are not handicapped by similar regulatory constraints.

They have entered our markets aggressively and successfully, but our companies have been unable to match that success of their foreign competitors in the export sector.

The United States presently enjoys a substantial comparative advantage in the telecommunications field. By rights, we should enjoy a very substantial trade surplus in the telecommunications area. However, the United States actually incurred, as you heard earlier, a trade deficit, speculation has it, of over $1.1 billion in the telecommunications sector alone for 1984 and upward. The figures that I am giving you are the figures that the STR Office is using for their own purposes. Now, the reason for this deteriorating situation are limited access to foreign markets and foreign unfair trade practices. As a result, U.S. telecommunications exports are only a small fraction of what they would be under reasonably open market conditions. We must find new ways to get and keep access to foreign markets and that means changes in the international trading system and new methods for U.S. trade policy.

Of course, our problems in the international marketplace go beyond unfair trade practices. I know that the strength of the dollar and I know that our failure to come to grips with the deficit has a major impact on the ability of this country to compete. There can be no question about that. We are certainly not blameless in this country and when we start thinking we are blameless, then we will get in trouble. We are not blameless. However, in the telecommunications business, the strong dollar is not a major export barrier because of the very competitive nature of our products in this field. We are, in most instances, locked out of foreign markets. That's our problem.

The European telecommunications monopolies, for example, are unwilling to procure substantial amounts of telecommunications equipment outside of Europe. Wherever possible, they purchase domestically produced products, even where better and less expensive American products are available. The Europeans have gotten away with this by simply refusing to make their telecommunications monopolies subject to the GATT Government procurement code.

Similarly, Japan's Nippon Telephone & Telegraph Co.—NTT as you know it—has been extremely reluctant to purchase products manufactured in the United States. I want to stop here and say that I more than anyone applaud the efforts of Lionel Olmer in the ongoing market access negotiations with the Government of Japan. He has done a splendid job and he has made some progress and I hope more will be forthcoming in the next few days in these negotiations. However, the resistance to buying American telecommunications products has continued in spite of the "NTT agreement" under which the Japanese Government committed itself to opening up NTT's procurement practices. I negotiated the first one of those, I know what it said. Since the NTT agreement has been in force, no American company has sold a single piece of network switching or transmission equipment in Japan. Let me repeat that. No American company, since that first agreement, NTT agreement, has sold a single piece of network switching or transmission equipment in Japan that I know of. These protectionist procurement policies are obviously aimed at promoting the development of domestic telecommunication industries within each of these countries. However, these policies I said directly cost us the exports, the jobs, and ultimately will cost us our competitive edge and will lead to the decline of these vital industries in which we are so far ahead today.

The Japanese, everyone knows, are a neomercantalistic economy with a $37 billion trade surplus against this country. Our trade deficit with Japan in the telecommunications sector alone was $1.1 billion in 1984. Furthermore, we now have nations like Brazil and Mexico following the Japanese in more and more ways. These examples just begin to scratch the surface and they take place in a world where the United States has no real tough, firm, clear, unequivocal policy to counter. The result is, very simply speaking my friends, we are being taken to the cleaners all over the world.

Our multilateral trade institutions are not providing, they can't provide the means to resolve these problems. It is no secret that the GATT is continuing to be subject to criticism, and many of the criticisms arise unfairly. They arise because of unrealistic expectations that have been created by some of the GATT's strongest supporters. We need to adopt a more realistic view of what can be achieved through the GATT as well as the pace at which it can be achieved. The United States must reaffirm its role as a principal supporter of the GATT and aggressively pursue plans for a new trade round, but at the same time, we must recognize that progress in the GATT will be slow, and in many ways very limited. We must, therefore, aggressively seek out more productive means of resolving our trade problems for the near term or we are not going to get there.

Coordination of our trade policy and its formulation within our Government is another very substantial problem. We haven't had any coordination in this administration although, when you look at the players with Bill Brock, Mac Baldrige, and Lionel Olmer, we have got as fine a people as this Nation has ever had representing them, just simply splendid people. But there hasn't been any clear direction as to who is in charge and who is doing what. And now the loss of Bill Brock, in my judgment, the administration taking Brock out of this field, this first-rate fellow at this crucial time is a major mistake and should have never been made. We just had a White House commission, a very good commission, that has come out with a hard-hitting and probably a controversial report that I would refer you to. And one of the things that it recommends is that we need an economic security council in the White House sort of modeled after the National Security Council and that it be charged with the responsibility of coordinating and developing a responsible trade policy. Now that may or may not be a good idea. I am not selling it and I am not denouncing it, but is something worth considering. But I would point out to you if that authority is returned to the Office of the STR where it was placed by this Congress, by the House and by the Senate and if authority is returned there, then that kind of coordination can come out of that office. It has in the past and it can again. It doesn't exist today.

But my purpose today isn't to pass judgment on proposals of that kind. My purpose is to suggest that now the President must take the lead in forging a real debate and a resulting policy for this country that will lead us forward with a meaningful, effective, and hard-hitting trade posture for our nation and indeed the world.

While those of us who serve and who have served at ministerial levels have made, we would like to think, significant contributions, it is my judgment that with the present crisis that exists around the world, it is absolutely essential that a President as popular and as strong as this president is takes a lead and that the European community and the Japanese together with this country must make drastic and dramatic changes that can only be accomplished by heads of government. And it is absolutely essential in my judgment that those heads of governments beginning in Bonn at the next summit address themselves almost exclusively to this trade problem. And that is a shame that they didn't start 6 months ago geared up just to tackle these problems at the Bonn summit because the leaders have got to come to that meeting prepared not only philosophically but substantively to discuss and deal with the kind of destructive actions that are heading us towards a closed trading system and a resulting worldwide recession. They must strike a negotiated global bargain and enter into a compact in which each of the three parties agree to take the kind of steps that are politically impossible for any one of them to take alone. There must be simultaneous commitment and action with each of the three putting enough on the table to make it politically viable for the other two to go along and they must instruct their ministers accordingly to do something about it. And this is a unique opportunity because we have a sitting United States with the popularity to get this done in this country and the popularity abroad to force it to be done.

The United States, among other things, must be prepared at that time to commit to take those steps that are necessary to reduce interest rates and other fiscal matters that are siphoning off capital investment in all other parts of the free world. And furthermore, the President should use his ample legal authority to bring the necessary persuasion to bear on our trading partners and he has that legal authority and law today.

The Japanese and the EEC must agree, among other things, to deal across the board with their industrial procurement policies. These are the kinds of major changes that must be made and cannot be made by ministers who only have authority to nibble around the edges of these gut issues. Consideration of these issues must be raised at the highest levels of government. In the telecommunications sector, for instance, procurement decisions are generally made by bureaucrats and the telecommunications monopolies. The question of market access is, therefore, in the hands of people with little or no understanding of the larger policy and political issues. I can tell you that no matter what decisions are made at the top in the field of telecommunications in Japan, those decisions will be implemented by bureaucrats and that with NTT going private, the same people who handled those matters when they were owned by the Government, the same bureaucrats at the lower level with the same philosophical approach and the same desire for protection will be administering it then.

And finally, we must go beyond market opening legal and regulatory measures that produce no tangible results. We must really see and measure in measurable terms substantial increases in U.S. exports before we can be satisfied that foreign markets are really beginning to open—and if we don't see a substantial increase in American exports that we can count dollarwise, then we must take immediate remedial action. As a matter of fact, in my judgment, if the Japanese don't open up some of their major markets, especially telecommunications, it will be irresponsible for this country not to retaliate. Too much time has passed.

In closing, let me summarize the three principal themes of my testimony. Let me repeat, first of all, that protectionism is not the answer. We must simply be prepared to take tough action in order to open foreign markets for American exports, and generally promote a more open trading system.

Second, these objectives can only be achieved through negotiations in which the heads of state of the major industrialized nations are, personally, involved.

And third, they must reduce measurable, tangible results in the form of increased U.S. exports that we can see. Without that, we will not be able to stand the rising tide of protectionism in this country and failure to take these actions is leading us to protectionsim. Taking them is not bringing about protectionism.

Without innovative ideas and a more active approach, protectionism will become the unfortunate political answer—and unfortunate political answer here and for our trading partners.

Thank you very much.

Mr. Wirth. Thank you very much, Mr. Strauss, and we greatly appreciate your excellent testimony. I have a specific question and a general question. Specifically I would like to go back to the NTT agreement which you negotiated. As you know, the great hopes that all of us had for that agreement between 1980 and 1984 have been largely frustrated. Why is that the case?

Mr. Strauss. I think the Japanese bureaucracy was unhappy with that agreement when it was entered into. I think it was ignored and I think they didn't follow up on it properly.

Mr. Wirth. You are going to have the same bureaucracy no matter what agreement might exist. Does that suggest that any agreement would then be very difficult within the culture of Japanese business?

Mr. Strauss. It is my judgment that any agreement you enter into, specifically in the telecommunications field in which you are interested, will have to be so carefully monitored just for that reason, that it will require almost daily attention by officials of this Government to see that it is carried out. The point I was making in my testimony is that the same bureaucracy would exist after it goes private as existed when it was public. And I can tell you those fellows have been working in those jobs for 30 years and they will be there for 10 or 15 more years. They see the heads of governments come and go. And they see the heads of NTT come and go and they go on about their business.

Mr. Wirth. That then leads to the more general question, which is who plays what role? You say in your testimony, and I agree that the President today dominates the American political landscape and he must aggressively take the lead. The question that then flows from that is twofold: One, what is the role of the Congress in this; and, second, what should Congress be doing related to the U.S. Trade Representative? If we have to monitor and follow up, should we be beefing that up? Should we strengthen the role that the USTR can play?

Mr. Strauss. I think the USTR is just as good as the relationship between the USTR and the White House. Specifically it depends on the kind of support he gets from the President. The confusion over who is running trade policy in this country, the trade field, reminds me some, to be totally frank, with the kind of confusion that existed in the Carter administration in the foreign policy field. They never knew whether the National Security Adviser or Secretary of State, who was speaking for who. And the President didn't do a darn thing to clear it up. I am not saying that in criticism of the men who held either one of those jobs.

In my judgment, I don't know of two people any more able and few as able as Baldrige and Bill Brock, simply superb public officials. But I think the kind of things you are talking about belong in the Office of the STR and the STR reports, as you know, under the law he really is—the legislation that created that office made it very specific, that they expected the STR to report to the Congress, both the House and Senate as well as be the arm of the President. But it has to be a clear signal who speaks to the President.

Mr. Wirth. Thank you very much Mr. Bryant.

Mr. Bryant. I agree everybody gives lip service to the fact that we don't want protectionism, but I think it is time to ask the question: How long do we wait before we start doing something? It has been almost 5 years since the completion of the negotiation of this agreement. This is just one area of international trade. We are whipped all over the playing field, all across the board in every department of international trade. Your testimony today just underscores that fact. How long do we wait? At what point have we waited long enough that those of us who have called for retaliation are not called protectionists?

Mr. STRAUSS. I think the time has come, but, Mr. Congressman, let me digress again for a moment. I want to tell the members of this panel that when I used to court Congressman Bryant's aunt, I never thought I would be sitting down here having to answer questions before him. He was 3 or 4 years old. This is a pretty demeaning experience for me, but I am going to answer his questions. He did have an awful good looking red-headed aunt.

Mr. BRYANT. Still got her, too.

Mr. STRAUSS. As well as a good looking mother, I might add, who I went to school with. Now that I have gotten those important things out of the way, I hope the record will reflect that and you send it home to your aunt and your mother.

Mr. BRYANT. They will appreciate it.

Mr. STRAUSS. What the hell was the question now? How long do we wait? That was the question.

Mr. BRYANT. Yes.

Mr. STRAUSS. First let me say that I don't think that retaliation—if the splendid negotiation that Lionel Olmer has been leading doesn't produce immediate results for the first step and then we don't monitor it and see that things are really beginning to happen, that there are some contracts coming in, then I don't think that it is protectionist to retaliate. Because if you don't retaliate, let me tell you something and you let this continue another year, 1½, or 2 years, somebody will strike a fire and then somebody will introduce some protectionist legislation in the Congress and it will pass the House and the Senate before you can say "Bango." That is how quick it can happen. That would be the worst thing that could happen.

So I think being aggressive and being tough and demanding that some things take place is the way you avoid protectionism. You see, I think that the automobile industry, for example, in Japan, the biggest stake they have, they ought to be working to see that those markets are open. They have a tremendous stake in telecommunications and in other arenas because the kind of actions that would take place in this country wouldn't just stop at telecommunications, they would sweep across the board. So it isn't just companies in this Nation, it is companies in whether it be Japan or Europe or wherever, that have a stake in seeing that something opens up, that something happens. So I don't think that you have to wait.

Mr. BRYANT. What kind of retaliatory measures could we take?

Mr. STRAUSS. Well, I think you can take it against countries, against products. You could take any of a number of kind. You could say unless we get so much trade, you are not going to get more than that much trade. Some people talk about tax to barter, which I don't like because that just raises the price for consumers.

That doesn't help anything. Well, it does help something, but I will tell you that it is my personal opinion based on considerable fact that the last time we put a 10-percent surcharge on and put a 10-percent tax to barter on, in Japan they indicated just go ahead and pay the damn thing, the Government did, go on and pay it and go on and do business and things will work out all right. So that really isn't the answer.

I think the threat to close our markets—you have to remember one thing. There is not a nation in the world that can stand to have this market of this country closed. No one can stand for the U.S. market to be closed. And as a matter of fact, we can't stand for our market to be closed, but the threat doesn't mean anything unless people think you are willing to do something about it.

Mr. **Bryant**. What I am curious about—I guess it is sort of a political question—when we start proposing these retaliatory measures, are we going to be called protectionists? I mean, is it time for us to start doing that? I think it is.

Mr. **Strauss**. I think the ignoring of the trade posture of this country and the ignoring of the issues that are negatively impacting on this country is the kind of thing that will lead to protectionism. And you will be guilty of bringing about protectionism by neglect quicker than you will be by taking some measured, restrained but very firm actions. I don't think you ought to excitably pass a lot of damn fool laws that restrict trade into this country. I am not talking about that. But I think we ought to set forth if this doesn't happen within this time frame, then this is going to happen in this country. I think it ought to be measured. I think it ought to be restrained. I think it ought to be a first step, but I think that it ought to be clear and firm and I think it ought to hurt.

Mr. **Bryant**. The President of the United States, I understood, has some significant power in that department already. I would be curious to hear your observations about that and also about the wisdom of the President's statement the other day that he was not going to require any voluntary restraints upon automobile imports from Japan when, at the same time, he got nothing in return for that agreement. For simply giving away that very important privilege to the Japanese auto manufacturers, he received nothing in return.

Mr. **Strauss**. Mr. Congressman, I think he made the right decision in getting and doing away with restraints because I think the time had come. And he had as many Japanese companies continued as we did, but I do think it shouldn't have been given away, it should have been traded away. It is just that simple. The decision was right, the implementation was wrong, but I gather that came out of the Nakasone-Reagan meeting and that is the way it was conducted.

Mr. **Wirth**. Mr. Coats.

Mr. **Coats**. Thank you, Mr. Chairman. Thank you, Mr. Strauss, for your testimony. I am a little bit confused. I think I share a lot of the sentiments that you are voicing, but it seems to me that we are trying to say two things at the same time and the two are incompatible. We are trying to say we don't want protectionism, protectionism would be bad, it would injure our economy, it might turn around and bite us. At the same time we have to take actions to demonstrate our resolve, but yet it seems to me those actions are protectionist type actions. I guess my question is, can we have it both ways? You admit your third point is that protectionism is not the answer, and yet you are near the end of your statement, it would be irresponsible not to retaliate. How do we make that distinction and should that be made administratively, legislatively, or both?

Mr. **Strauss**. Your question is a splendid question, Mr. Coats, and it is not an easy one to answer. The simple truth of the matter is that when I said, take carefully thought-through measured and restrained but very firm action, it is because I don't want to go back to the kind of legislation that has gotten this country in trouble back in the 1930's, that kind of protectionist legislation. Of course you don't want that and we can't afford to be protectionists in this country. There are people like Fred Bergsten and others coming later who will address this far better than I can, but just think of what it would do to this country if a number of the Third World countries couldn't ship in here. Think what it would do to our financial institutions who have loans out there. Think what it does to the various American companies who need to export into those countries. We can't stop doing business with these people. We can't be protectionists. That's one side.

The other side is, we can't continue as we are going right now and having our lunch eaten every day. And that's why I say you take very selective, carefully thought through actions and to get somebody's attention. The old story of the mule and the club, the first thing you do is get his attention. Let me give you an example of what happens, how broad this whole thing is and what the impact is. The EEC has sugar at a cost of 26 or 27 cents. It is dumped on the world market between 4 and 5 cents. Now, not only does that disrupt the sugar market in this country, but let me show you what it does around the world. Now, you gentlemen that sit here also deal with the problem of Central America. You have various opinions on it, but we all know that we have to lift them economically.

Now, what is happening in Europe with sugar being dumped has destroyed the Central American economy, which was based on sugar. It has cost them, I don't know, I think $3 or $4 billion, a lot more than we were able to send down there in economic aid. It is costing that kind of money, so it affects this country in its foreign policy in its broadest sense. We can't let that continue. Stopping that kind of action is not protectionism in my judgment.

Mr. **Coats**. Do we design our retaliatory measures against specific countries for specific actions?

Mr. **Strauss**. I think that this country would be making a mistake if out of these negotiations that are going on now, if the administration turns to Congress and says, "Well, they haven't really produced anything," then I think this country makes a major mistake not retaliating against Japan for their failure to open up to some reasonable extent, not everything overnight all at once but to begin to make positive steps. I think, yes, you retaliate against Japan until that situation is cured. And I will guarantee you that it will cure itself.

Mr. Coats. Do we link the retaliation to the specific product? In other words, telecommunications for telecommunications?

Mr. Strauss. You might do that. You know, under the 1984 Trade Act, the President has a great deal of authority. Now, there are a lot of people who think that you have a responsibility as a Congressman to pass some legislation, but to give a President the political will to take these steps, that you should pass some legislation tracking the 1984 Trade Act but saying on the happening or making certain findings by whoever the findings might be made by, the President is mandated to take certain steps where he doesn't use his discretion to do it.

Mr. Coats. Thank you.

Mr. Strauss. It takes great political will for a President to do the kinds of things I am talking about, even one as popular as this one—yes.

Mr. Wirth. Thank you, Mr. Coats.

Mr. Oxley.

Mr. Oxley. Thank you, Mr. Chairman.

Mr. Strauss, last November, I, along with several other Members, had an opportunity to be in Hong Kong. At that time, we met with the American Chamber of Commerce in Hong Kong and the Far East and we had some discussions with them about this very issue. One of the things that struck me was our discussion about domestic content legislation and its effect on the trade imbalance. I had opposed domestic content in the past for many of the same reasons you pointed out. Their response to me was that a domestic content bill in one House, in their estimation, had a significant impact indeed in getting the attention of our trading partners in the Far East, but they were pleased as businessmen—American businessmen representing American companies—that the legislation did not reach its final conclusion and become law. It appeared to me to be somewhat of an anomaly to deal with. Here we, at one point, had the threat, the very real threat of that type of legislation passing, yet it did not. I am wondering if you would care to respond to that. Should from the Congress focus dealing with a specific issue in a specific way, as you commented to Mr. Coats' question?

Mr. Strauss. Mr. Congressman, I thought that the domestic content legislation that passed the House was a bad piece of legislation. I would have opposed it. I did testify against it, as I recall, or I wrote some letters against it, I don't recall which. I would have opposed it. By the same token, if I was in Bill Brock's shoes when it passed, I would have utilized it in my negotiating effort. Now, it is an anomaly and it is even worse than that, it is demagogy, to be very frank, but it is something you use. Now, I don't think this country ought to get in the habit of passing legislation for that kind of purpose. You are not here for that reason. But I would say to you that when I had the Trade job, the support of the House and the Senate, Republicans and Democrats alike, the fact that I could call Johnnie Rhodes and say, get your fellows to get the fellows on your side and let them know it is just not one-sided and he would be there in 24 hours—2 minutes, not 24 hours—was a big help to me and I used that. I used that muscle to tremendous advantage.

I have the greatest respect for the Japanese and what they have done. I am not critical of the Japanese and the Europeans, I am really critical of us. We are not blameless in this country. I am not here just pointing the finger and saying everybody else is wrong, we are right. But if they really struck the kind of global bargain I am talking about, there is plenty the United States need to put on that table, too. As you know, you travel around Europe a little and you hear the things that are taking place in this country, you come back with a little different perspective. But I know right now we are being taken to the cleaners.

Mr. OXLEY. That brings me to my next question. It appears to me that there are some countries, namely, Taiwan, for example, who have made a sincere effort to try to close that gap. Now, on a per-capita basis I suspect that our trade deficit with the Republic of China on Taiwan is worse than it is with Japan. For example, it was $10 billion last year, in a country that only has 19 million people. And, of course, it is an island country that is totally dependent for its energy sources on the outside. They have made, it seems to me at least, an effort at trying to reduce the trade deficit with the delegations that have come over to this country and purchased American products.

Do we want to treat those countries who at least have made an overt attempt at closing that gap? Do we want to treat them differently from the countries that, for the most part, have turned their backs on this particular problem, as we see it?

Mr. STRAUSS. I think you deal on a country-by-country basis, in my judgment. You don't want to close the door to the world because there are abuses in certain areas. We keep talking about protectionism. What I am really trying to say is that we ought to be talking about remedies to our present terrible trade problems, not talking about protectionism. Now, a remedy is to say if you don't start leveling the field, we are going to do the following. That is a remedy. That is not a protectionist act in my judgment. That is about as well as I think I can distinguish it.

Mr. OXLEY. Where do you stand on the Danforth proposal on reciprocity?

Mr. STRAUSS. I know something about Senator Danforth's legislation. I think he is dropping in today or tomorrow I saw in the paper. I really don't know enough about it in detail to comment on it.

Mr. OXLEY. Thank you.

Mr. STRAUSS. Reciprocity is a very difficult thing, you know. It sounds good, it sounds awfully good, but it is really tough to make work and make work properly.

Mr. OXLEY. Thank you. Thank you very much, Mr. Chairman.

Mr. WIRTH. Thank you very much, Mr. Oxley.

Mr. RINALDO. No questions.

Mr. WIRTH. Mr. Bryant.

Mr. BRYANT. Mr. Ambassador, I would like to ask your opinion about the relative position of our country to other countries in terms of the way in which we permit them to come here and buy real assets; real estate, bank stocks, or banks, plants, and other things like that. First, in Japan, do they allow us to go there and buy a ranch? Can a Texan go there and buy a ranch?

Mr. STRAUSS. You have an altogether different situation getting into there, whether you are going for services, whether you are going for professional services, insurance services, going into business, entering partnerships. It is a different situation. It is far more closed and more complicated with more problems than you have in this country. But, you see, I think there are two sides to that. You can make a good argument and I like the idea that foreign money comes to be invested in this country, if it comes for the right reason

Mr. **Bryant**. I like the idea, too. I have just recently become more and more concerned about the fact that we pay for their defense, both in Japan and in Europe. We open our borders to them in every trading area. They come over here and do almost anything they want to. They are protected by our laws. They sue us in our courts. We can't go there and buy banks and buy ranches and buy other types of assets and we can't even get a good number of our products, like our communication products in and sell them, so at what point do we start to feel that we are actually letting our country be sold a little bit at a time?

Mr. **Strauss**. That is a much broader question and one you can go into and debate philosophically. I would point out to you that my own personal opinion is not really a subject for today, but I think that instead of our going over there and spending as much effort as we do trying to get them to spend a few more dollars on defense, which really doesn't amount to a damn thing. They are never really going to make a major contribution in the defense of the Pacific for us. I would rather put that same heat on opening up trade and demand they do things in that area. You would make a lot more progress.

Mr. **Bryant**. Well, my specific question, though, to you because you are the expert in the area, to what extent are we closed out of the opportunity to buy real assets in most countries?

Mr. **Strauss**. We are substantially closed out in many areas.

Mr. **Bryant**. I wonder if it is wise to continue to let that imbalance exist.

Mr. **Strauss**. Well, that is a subject of which there has been a great discussion and there will be much more. Of more concern in buying real assets, though, is providing getting in there with services, with banking services, insurance services and all of those things. There is not a great demand in this country to go over there, people who want to go over there, whether it be to buy a building or a ranch or anything else, or farms, it is too complicated. There is no demand there. There was a tremendous demand to get services in, for example.

Mr. **Wirth**. Mr. Strauss, we thank you very much for being our opening witness and presenting just precisely the kind of clear and well-defined testimony that we had expected. It gets us off to a great start. We thank you for being with us.

Mr. **Strauss**. Thank you very much. I apologize for being so garrulous. It is a subject I have great interest in and have more to say than I know really.

Mr. **Wirth**. It was our pleasure to have you here. Thank you very much, Mr. Strauss.

Our next witness is a panel, and if they could come and join us at the witness table, please. Mr. Frederick Bergsten, director of the Institute for International Economics in Washington and former

Assistant Secretary of the Treasury; Mr. Howard Samuel, president of the Industrial Union Department at the AFL-CIO; and Mr. John Yochelson, director of international business and economics at the Center for Strategic and International Studies at Georgetown University here in Washington.

Gentlemen, we thank you very much for joining us. I know Mr. Bergsten and Mr. Samuel are familiar with the rules of the subcommittee, and I think you are as well, Mr. Yochelson. We would ask you to summarize your testimony as you see fit and then we will have time to get into questions and answers with members of the subcommittee. Your testimony will be included in full in the record.

If I might start with you, Mr. Bergsten and then go to Mr. Samuel and Mr. Yochelson, right in the order in which you are sitting. Again, we thank you all for being with us.

Mr. Bergsten.

STATEMENTS OF FREDERICK BERGSTEN, DIRECTOR, INSTITUTE FOR INTERNATIONAL ECONOMICS; HOWARD D. SAMUEL, PRESIDENT, INDUSTRIAL UNION DEPARTMENT, AFL-CIO; AND JOHN N. YOCHELSON, DIRECTOR INTERNATIONAL BUSINESS AND ECONOMICS, CENTER FOR STRATEGIC AND INTERNATIONAL STUDIES, GEORGETOWN UNIVERSITY

Mr. BERGSTEN. Thank you, Mr. Chairman. I was asked to give an overview of the current international trade position of the United States. I will try to do that briefly but pointedly.

The United States is now facing a massive international trade problem and it is probably a lot worse than you think. Last year, the trade deficit came in at about $110 billion and the current account deficit, which includes services as well, that you were just discussing with Ambassador Strauss, was about $100 billion. That is six or seven times higher than it ever was until a year or so ago. These are unprecedented numbers.

But it is getting much worse. This year, both the merchandise and current account deficits will probably range between $130 and $140 billion. And, on projections that were just completed at my Institute for International Economics, if the exchange rate of the dollar were to remain at recent levels, the U.S. trade deficit by the end of the decade would exceed $200 billion and our current account deficit would exceed $300 billion. These are staggering numbers, and the situation is getting worse under current policies and prospects. There is no sign of a turnaround, let alone a return to levels that could even vaguely be viewed as acceptable.

The effects of this trade deterioration are enormous. We have already seen a sharp slowdown in the growth of the U.S. economy since the middle of 1984, primarily because increased U.S. demand is being met by goods from abroad not goods from at home.

We have already lost, or given up, between 2 and 2½ million jobs in our export and import competing industries. And if the numbers that I suggested to the end of the decade were actually to occur, we would give away something like 4 to 5 million jobs in some of our best industries because of the trade deterioration. American firms are increasingly finding it necessary to invest abroad rather than at home because of the loss of America's competitive position. In essence, we are undermining our productive base for the long run, not just the short run.

The counterpart of these massive trade deficits, of course, is massive borrowing from the rest of the world to finance the external deficit. In just 3 years, the United States will have moved from being the world's biggest creditor country to being the world's biggest debtor country. By the end of this year, our net foreign debt will exceed that of any other country. And if the projected numbers were actually to occur, by the end of the decade we would be a net debtor country on the order of $1 trillion or so, much more than all of the developing countries that today we call the debt crisis. So the situation is bad and it is getting much worse.

The obvious question is how did this come about and why has it happened. I would submit that the problem is not primarily trade barriers abroad or unfair competition or lack of a level playing field. Obviously, there are some barriers to our exports. Obviously there are some foreign subsidies that are undercutting our competitiveness in world trade. But when you add all those up, as best one can—and it is quite difficult—the numbers are very small compared to the deterioration of $100 or $200 billion in our overall trade position.

Second, I do not believe that the problem is any underlying lack of U.S. competitiveness. Questions are frequently raised as to whether our underlying industrial base, our educational base, our R&D spending and the like are adequate. Again, there are clearly things that need to be done to improve our position. But I think that is not the answer to why we developed this huge trade problem.

Indeed, as recently as 1978 to 1980, American exports were growing twice as fast as world trade. Our share of world markets in every industrial market was rising sharply and indeed hit levels not seen since the 1960's. We had a huge improvement in our trade and current content position. So I would submit there is no across-the-board, or even widespread, decline in our underlying competitive position.

If it is not unfair barriers and not our underlying economic capability, what is it? In my view, it is overwhelmingly the high exchange rate of the dollar that we have seen over the last 3 to 4 years. Part of the deterioration in the trade deficit is simply because our economy has been growing faster than other economies around the world. That sucks in more imports here than other countries buy from us. One manifestation of that has been the debt crisis in the developing countries. They had to cut back on all expenditures of foreign exchange, including imports from us. So those two factors have also caused some deterioration in our trade balance. But by far the overwhelming source of our problem is pricing, due to the extreme rise of the dollar in the exchange markets.

Over the last 3 or 4 years, the exchange rate of the dollar, weighted against other major currencies, has risen between 50 and 80 percent, depending upon your base period and how you weigh the other currencies. There is a simple rule of thumb that has been developed by economists over the last few years. For every percentage point we lose in price competitiveness through a rise in the dollar, our trade balance deteriorates by about $3 billion. That is how responsive our trade is to changes in price competitiveness. And so when the dollar rises by 50 percent or more in a 3- or 4-year period, it is obviously going to have a dramatic effect on our ability to sell abroad and the desirability of imports coming into this country.

We have done extensive analysis in my institute which suggests that the dollar is now overvalued, compared with the underlying competitive relationship between the United States and Japan and the United States and the Europeans, by about 40 percent. That means that American exporters essentially face a tax of 40 percent on everything they try to sell abroad. It means that all imports coming into the country are essentially subsidized to the tune of 40 percent. So it is no wonder that we see this enormous deterioration in our trade position.

I would explicitly include our trade portion with Japan as being dominated in the recent past by this exchange rate problem. I make that point because I know some people before you, I think including Ambassador Strauss, suggested that the exchange rate problem, while key in the overall sense, is not important for Japan. I would suggest that a reading of recent history comes to an opposite conclusion. I in fact did an extensive analysis a couple of years ago "What to do about the U.S.-Japan economic problem," Foreign Affairs, summer 1982, to trace the evolution of the bilateral United States-Japan trade balance and the global balances of the two countries over the last 15 to 20 years. What it shows is that there is a consistent United States trade deficit with Japan, that has a lot to do with our global structure and Japan's global structure. But every time there has been a sharp increase in the Japanese surplus with the United States, it can be attributed and traced directly to a weakening of the yen against the dollar in the exchange markets. Conversely, when the dollar has come back down to a more correct level, the imbalance with Japan came down to a more modest level—still a deficit, and still rising at a secular rate over time. But the degree of imbalance changed dramatically with the exchange rate, almost a textbook case of how trade balances and exchange rates interact. I wouldn't argue that that's the total problem in the telecommunications sector, or any individual sector, but in overall terms it has clearly been the dominate element.

So I would submit that, in looking at this enormous trade and international economic problem that the United States faces, the centerpiece has got to be correcting the exchange rate of the dollar.

I could go on at great length, Mr. Chairman, if you wish, on why the dollar is so high and what to do about it. Given your time constraints, I will perhaps avoid doing that at the moment, unless you want me to, but simply submit that in any overall approach to the problem, including to the problem of a given sector like telecommunications, you have got to make every effort to get the pricing right or else we are essentially denying ourselves competitive opportunity in world trade.

Mr. WIRTH. Thank you very much, Mr. Bergsten, for such a tour de force through the trade situation and where we are today. We will come back to that with some questions.

Mr. Samuel.

STATEMENT OF HOWARD D. SAMUEL

Mr. Samuel. Thank you, Mr. Chairman. Let me first remind the committee that although I am now speaking as president of the Industrial Union Department, in my previous incarnation I served almost 3 years as Deputy Under Secretary of Labor for International Affairs, where Mr. Bergsten and I frequently met across the table of the same administration, although we didn't sometimes agree then and I am afraid that condition continues.

Representing the Industrial Union Department, I speak to you from the frontlines of the worst industrial decline in our Nation's modern history. Lost employment amounting to more than a million manufacturing jobs is only a part of the story. The industrial sector has been slowly losing its share of the market, both here and worldwide, for almost 20 years. Profitability has declined, workers' earnings have been falling behind the cost of living since the early 1970's. The present trade deficit, as Fred Bergsten indicated, is astonishingly and depressingly high, but we have had deficits in our merchandise trade balance for 12 of the last 14 years, including some years when the dollar was not overvalued but undervalued.

The long-term problems I am describing are clearly we believe not caused by the recent recession or exclusively by the overvalued dollar, which certainly has contributed. In sector after sector, the decline while made worse by the recession and the overvalued dollar, set in long before either of these causes.

Now, some of our leading prophets suggest that the industrial sector is not very important to our economic welfare anyway. They suggest we can live off of the services and a few high-tech industries. In the labor movement, we start with a different proposition; that in an economy as large as ours the United States must maintain a sizable and diversified manufacturing sector. We need it because it is a manufacturing sector which provides most of our productivity improvements. We need it because if we are ever able to achieve a better balance in our trading account, we will have to sell goods as well as services. And we need it because we cannot maintain our economy on a foundation built of services. Services, to a major extent, follow manufacturing, just as software follows hardware. And we know we cannot count on so-called high-tech products alone because they are no less vulnerable to international competition than the products of the smokestack industries.

Today we must face the fact that unless we retrieve our ability to compete in the international marketplace, we may well lose a substantial proportion of our goods-producing sectors with a devastating effect on our economic welfare as a whole. So what can we do about it?

First, we have to recognize that we are losing the trading war because we are not playing by the same rules as our competitors. We are still guided by old philosophies and practices which are no longer relevant. In setting trade policy, we are still following Ricardo on comparative advantage while most nations now follow Clausawitz on war. Our trading partners are increasingly resorting to nontariff barriers to protect their markets from our exports. They have also perfected the practices of industrial targeting, using fair means or foul measured against GATT standards, to capture our markets. Governments routinely intervene to protect domestic markets as new industries develop or old ones are recast. Export subsidies are provided to give products a price advantage. Export credits are subsidized to assure a competitive edge.

The list of Government intervention by our trading partners is endless. Our routine response in this country is to take refuge in this philosophy of laissez-faire.

What is needed today is a well designed program of macro measures to provide for a dynamic diversified economy coupled with specific steps to level off the international playing field.

First, reform our trade laws so that we can take adequate steps against those trading partners whose methods violate GATT standards. Why should we allow ourselves to be victimized by products which received direct subsidies or are sold below costs. Other nations do not.

Second, we want to be more responsive to industries which are the victims of foreign industrial targeting. Our country's decision, incidentally, in the machine tool case I think was indefensible.

Third, we should seek means of stabilizing international trade in the few industries where all the rules are broken down and a multilateral regime is clearly needed. I refer, for example, to steel.

Fourth, so we make these decisions in a rational and systematic manner, we should bring industry and labor and Government together in an industrial policy framework. I am not looking for more Government intervention into the marketplace. We may already have too much, but what we have has been imposed without rhyme or reason in response usually to sectoral a crises without reference to one policy's affect on another and without national purpose.

Above all, Mr. Chairman, the problem cannot be met in terms of protectionism versus free trade. One, there is no free trade anywhere. Two, every nation is bound to protect what it considers its vital interests, economic as well as political. I am sorry to say that anyone who still views the issues in those terms is in the wrong century.

Thank you.

[Testimony resumes on p. 50.]

[Mr. Samuel's prepared statement follows:]

STATEMENT OF HOWARD D. SAMUEL
President, Industrial Union Department (AFL-CIO)
before the House Energy and Commerce Committee
Subcommittee on Telecommunications, Consumer Protection,
and Finance, March 27, 1985

Mr. Chairman, members of the Committee, my name is Howard D. Samuel, and I am President of the Industrial Union Department (AFL-CIO), an association of 55 national and international unions with 5 million members in the U.S. industrial sector. I am pleased to be able to discuss with you problems in U.S. trade -- particularly, but not exclusively, as background for the telecommunication trade problems we are experiencing with Japan.

In the most general terms, these and other U.S. trade problems can be traced back to the fact that the United States alone among the world's industrial and trading countries acts as if laissez-faire policies not only should but do rule in industrial development and trade, and not only in this country but in other countries as well. Forty years ago, in the aftermath of World War II and of the Great Depression, the United States exerted leadership in establishing a framework for relatively free trade as a stimulus for western reconstruction. The goals of that effort, with related policies, were generally achieved.

In the last 20 years however, a different kind of world industrial and trading system has developed, while U.S. policymakers seem not to have noticed the differences. With the reconstruction of Europe and Japan, and the emergence of the newly industrial countries in the Far East and Latin America, the United States lost its once unquestioned dominance in international competition.

The U.S. labor movement, operating on the cutting edge of the world of production and jobs, has understood for some time now that U.S. trade policy is increasingly out of step with the realities of international competition.

I. Origin and Obsolescence of U.S. Trade Policy

The essentials of U.S. trade law and policy applied today were shaped fifty or more years ago -- through the beginnings of the Reciprocal Trade Agreements Program designed by Cordell Hull in reaction to the Great Depression and Smoot-Hawley and its counterparts abroad, and through the framework of the post-war international institutions and U.S. laws designed to foster economic recovery and political stability among America's potentially democratic allies. Leaving aside the opportunities for profit entailed in this emerging post-war economic and political framework, it was one that earned widespread support -- including from organized labor -- as a contribution toward a successful economic reconstruction and as a foundation for a peaceful and democratic reconstruction.

To the extent that the United States domestic economy contributed more to this system than it was able to receive in return -- by providing incentives for offshore investment by U.S. multinational corporations, or by opening up U.S. markets through tariff reductions while other industrial countries were permitted to maintain selective protection for their favored industries and less developed countries were generally excused altogether from reducing tariffs -- that imbalance was very broadly accepted by organized labor along with other domestic constituencies until the beginning of the 1960s.

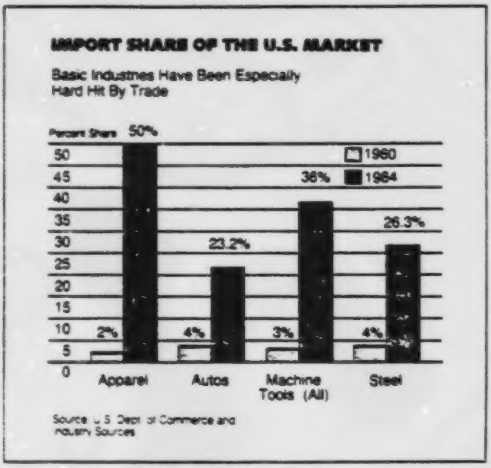
In the years immediately following WW II and the Great Depression, with memories of Smoot-Hawley and facing the challenge of building a viable western alliance, this framework of moving toward "free trade" with the U.S. in the lead seemed to make sense. It was all the easier to accept in this country because of the unchallenged economic dominance of the United States. The U.S. found itself in the same position enjoyed by Great Britain in the 19th century, where unquestioned competitive superiority made good sense of both the theory and the practice of "free trade" -- where even unilateral free trade produced benign economic results.

The success of the post-WW II framework, as designed, began by the early 1960s to erode its own rationale and basis of support. European and Japanese industry were quickly rebuilding in the midst of an unprecedented boom that was to endure for more than two decades, significantly raising living standards and competitiveness. A handful of the then developing countries followed the Japanese model of government industrial stewardship aimed at export-led growth and moved rapidly toward their current status as newly industrial countries, or NICs.

By the early 1960s, America's labor-intensive industries such as apparel, textiles, and footwear were the first manufacturing sectors to face major displacements due to import competition. But they did not long remain alone in that difficulty. More technologically advanced industries like consumer electronics were hit in the 1960s by a combination of imports from independent sources and by offshore production by U.S. multinational firms moving to cheap labor locations, ducking behind foreign trade barriers with investments and transferring their technology into markets where they could not sell the products made with that technology. With the continuing rapid growth of world trade in the 1970s, competitiveness became a very serious problem for capital-intensive industries like steel and production and design-oriented industries like autos and machine tools. In the later

1970s and 1980s the same problems extended even to "high tech."

Chart 1



IMPORT SHARE OF THE U.S. MARKET

Basic Industries Have Been Especially Hard Hit By Trade

Source: U.S. Dept. of Commerce and Industry Sources

In short, America's competitive difficulties spread right across the industrial spectrum, from labor-intensive industries to capital and knowledge-intensive industries. No sector was or is immune.

The overall indicators of declining industrial competitiveness are startling:

- America, which never had a trade deficit in this century until 1971, had annual trade deficits averaging $40 billion in the late 1970s, rising to nearly $70 billion in 1983 and $123.3 billion in 1984. This year's trade deficit is officially expected to reach $150 billion, with upwards of $200 billion forecast for the end of the decade.
- The U.S. is losing position in world export markets in every major industrial sector -- including seven out of ten "high tech" sectors (see Chart 2).
- Real take home pay of American workers has declined 14 percent since the early 1970s, and manufacturing profitability has also declined.

Even Ronald Reagan's President's Commission on International Competitiveness has found that "The United States is losing its ability to compete in world markets."

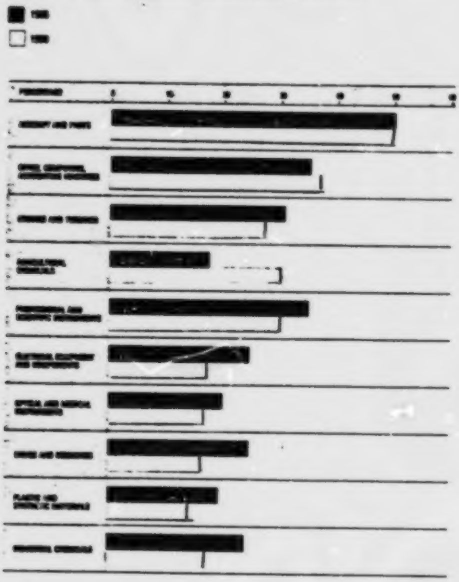
II. Declining Competitiveness: Why Does it Matter?

Despite those myopic observers who feel that gutting the industrial sector is but a small price to pay for low inflation in the face of record budget deficits, the erosion of America's industrial base by our unwillingness (or inability) to manage our external economic relations has dramatic negative consequences for America as whole.

The burgeoning trade deficit directly undermines jobs. With each $1 billion in trade representing some 25,000 jobs, the current $123 billion deficit translates into the

Chart 2

UNITED STATES SHARES OF WORLD HIGH-TECHNOLOGY EXPORTS, [illegible] AND [illegible]



loss of over 3 million job opportunities, and 2 million jobs lost just since 1980 (numbers recently confirmed by DRI in a report to the Joint Economic Committee); with an $89 billion manufacturing trade deficit, the bulk of the job losses fall in the industrial sector. This is the source of a grim imbalance in the recent job creation record of the U.S. economy: While 6.3 million jobs have been created overall since 1979, manufacturing has actually *lost* 1.6 million production jobs while the rest of the economy was gaining 7.9 million jobs.

Subtracting generally well paying industrial jobs from the economy means a weakening of the middle tier of jobs and income, lower earnings (and fewer jobs) for those at the bottom of the social ladder, and a push toward a more unequal "two tier society." The direct impacts are immediately felt by displaced blue collar workers: displaced industrial workers, many of them with high productivity levels with skills they have developed for most of their working lives, are unlikely to become the California computer programmers of tomorrow. To the contrary, they most often end up with long-term unemployment and reduced future earnings -- that is, if they don't drop out of the workforce altogether.

Equally destructive but less apparent are effects on women and minorities. These groups have suffered disproportionately in the erosion of industrial jobs, but they are hit again by the overall weakening of middle-income jobs and income opportunities: How can groups that have suffered from past (and often continuing) employment discrimination hope to close income gaps when the middle-income jobs into which they need to move are being cut back and when the service jobs now expanding offer much lower wages and more polarized pay scales? (On these and related themes, see Deindustrialization and the Two Tier Society (1984), a study from the Industrial Union Department). There is more than a coincidental connection between America's declining trade fortunes over the past 15 years and the decline and stagnation of real take-home pay, the return to widening income gaps between whites and minorities, and the shrinkage of decently paying jobs in the middle tier of American society.

These social concerns, however, are far from the only ground for concern about America's declining success in international competition. The manufacturing sector plays a fundamental role in the overall economy and society. Decimating the goods-producing base has and will have repercussions throughout the economy and society.

America's industrial base provides a foundation for the economic superstructure that our society cannot afford to simply do without. Fashionable concepts like "the post-industrial society" -- which are used to absolve any concern over the consequences of laissez-faire optimism in international competition -- mask the intimate linkages which tie the services economy and "high tech" manufacturing to the broad industrial base.

The higher value-added, higher wage part of services in fact largely "serves" domestic goods production. Transportation, communication, computing, advertising, design and engineering are primarily producer services which are tied to production in this country. Already the largest advertising firm in the world is based, not in New York, but in Tokyo. The country that leads in computers has an advantage in developing computer software; if it surrendered computer leadership, there would be little grounds for optimism about the future of its software industry.

High tech industries likewise depend upon and "serve" more basic industries. Roughly one third of this country's industrial robots, for instance, are purchased by the auto industry. If we give up 50 percent of our auto production, as some analysts predict will occur, it will not be without consequences for our fledgling efforts to develop industrial robotics and other high tech devices for world class manufacturing production.

Equally germane for tempering possible overexuberance about the imminence of the America's imagined new earth in high tech heaven is the fact that America's high tech industries are subject to the same trade dilemmas as the rest of American manufacturing. (This is a lesson the self-annointed Atari Democrats learned to their dismay, when Atari in 1984 closed down its U.S. computer plants and shifted 1700 jobs to Taiwan and other far eastern NICs.) A few examples may be instructive.

- In numerically controlled machine tools -- literally the cutting edge of an industrial economy -- Japanese industrial policy used a variety of instruments to develop a capable export-oriented industry. Combining a closed home market, selective one-time-only imports and reverse engineering of the most advanced machine tools, MITI-enforced specialization among firms, industry-wide joint R&D, and ample financing for production capacity to meet anticipated export demand, Japanese exports moved from 3.6 percent of the U.S. market in 1976 to 60 percent in 1983. Two different industry petitions for temporary import relief have been denied.
- In optical wave guides -- the basis of the new generation of digital telecommunications -- American firms developed the technology. But they can't sell fiber optic cable in Japan at $1 per meter, when the

sales price there is $3 per meter; the Japanese meanwhile are seeking sales in the U.S. at 80 cents per meter.

- In a wide range of advanced sectors, from aircraft to computers, pharmaceuticals, and oil drilling equipment, newly industrial countries are barring imports and requiring local production; if multinational firms refuse to comply, the frequent alternative is simply pirating the technology.

The proposition that we can't survive selling each other life insurance and taking in each other's laundry seems more, rather than less, relevant in the face of these and similar increasingly pervasive practices in modern international competition.

III. THE NEED FOR ACTION

The United States is experiencing decreasing success in practice in international competition, and present U.S. policies (or more frequently, the lack of policies) is doing little or nothing to address a very serious problem.

The U.S. government -- having moved 40 years ago to promote adoption of a system of international trading rules (the GATT) based on theoretical principles of free trade and comparative advantage, and having built up a structure of U.S. trade law and policy and practice largely consistent with that theory -- now seems incapable of recognizing that (1) the world assumed in that theory cases, the U.S. government carries on as if it would be at least impolite, if not foolish, to point out that this emperor's new clothes aren't all they were supposed to be.

Our country is being committed to an unprecedented historic gamble of unilaterally surrendering our industrial base -- with all the social costs and economic risks that entails. In labor-intensive and basic as well as emerging industries, America seems to be alone among the industrialized nations in its willingness to give up major portions of its industrial base to imports.

In automobiles, for instance, the U.S. government has just announced its intention not to renew voluntary export restraint agreements with Japan, with the official expectation that the Japanese share of the U.S. auto market will rise from its present 21 percent to over 30 percent (private estimates have ranged to 40 and even 50 percent and higher). Meanwhile Japanese imports are limited to 2,000 cars annually in Italy, 2.5 percent of the market in France (recently rolled back from 3 pertent), and 11 percent in Germany and in Britain, which also has local content requirements. The prospect of diversion into the U.S. -- as the only open major market -- seems to carry no weight with the Administration, as does the impact of an overvalued dollar and undervalued yen at the time the VER is ended. And it scarcely bears mentioning that the U.S. auto industry is still only partially adjusted to the probably exists less today than at any time since the beginnings of this grand historical experiment in free trade, and (2) the increasing deviations from that system in recent decades have systematically disadvantaged the U.S. economy.

The GATT system was designed for dealing with trade among relatively similar capitalist economies, with relatively similar cost structures and market incentives, with relatively stable exchange rates aligned at levels that would balance trade flows over time, and with visible tariffs or quotas the primary barriers to trade. What was not contemplated was a world of industrial trade involving very low wage countries, with pervasive non-tariff barriers, extensive government-to-government agreements managing trade and investment flows, with government targeting of industries for development and export expansion, with exchange rates that accommodate persistent trade and current account deficits, and with tariffs superseded by non-tariff measures and informal (often unpublicized) government measures as the most significant barriers to "free trade."

Ironically the U.S., which has been by far the largest loser in this transmogrification of the world trading system, has been the last to recognize these changes and has reacted, almost certainly, the least of any major industrial country to these profound changes. And in most design and production of quality fuel-efficient cars of the kind that have been necessary for decades in countries with historically high fuel prices.

In steel, where the American integrated industry has been crippled while open markets and truly independent private producers are hard to find elsewhere around the world, the U.S. government agonized before agreeing (six weeks before the 1984 presidential election) to seek a 5-year system of bilateral agreements aimed to hold imports to roughly 21 percent of U.S. consumption. Meanwhile the Europeans, far less efficient than the U.S. in producing steel mill products, have restricted imports to roughly 8 percent of their market since 1978 as part of their steel restructuring and modernization program. Japanese imports of Korean steel, produced with state of the art technology and total labor costs of $1.80 per hour, are reportedly well below what a free market would call for.

In textiles and apparel the U.S. government seems to be working for a radical reduction in the size of the domestic industry by pushing the Multi-Fiber Arrangement (MFA) to its limits in allowing import growth. While the domestic market for textiles and apparel has been essentially stagnant, imports have grown from 30 to 44 percent *annually* for each of the past several years, although the MFA theoretically allows a 6 percent annual growth. Again, no other industrial nation has allowed such incredible increases in the import share of its domestic market.

These problems are by no means limited to a few isolated industrial sectors, or to older or "smokestack" industries. High tech and emerging knowledge-intensive industries have reached the point of difficulty that warrants a cover story in Business Week, decrying "America's High-Tech Crisis: Why Silicon Valley is Losing its Edge." These "industries of the future" are facing the same mismatch between the theory of American industrial and trade policy and the reality of trade practice in the rest of the world.

As George Meany said in the mid-1970s, "Free trade is a myth and a joke." But it's turning out that the United States government is the only government that doesn't realize the truth of that statement; and as a result, the joke is at America's expense.

It may have been possible to ignore these systemic imbalances thirty or forty, or even twenty years ago, when imports were still only four percent of GNP. It is impossible to continue to ignore them today, when imports of manufactured goods account for more than one fourth of overall U.S. industrial consumption, when 70 percent of all U.S. manufacturing output competes with foreign made products, and when America's manufacturing base is being consistently losing out in one-sided international competition.

The American traditionalist "free trade" response to these new and deteriorating conditions is, as usual, pure "laissez-faire" -- or, more plainly, "Doing nothing is the wisest course." Unfortunately, doing nothing, or as little as possible and then in as fragmentary a way as possible, is how we got into this mess in the first place. 'Laissez-faire' can make no pretense as an adequate prescription at this point.

IV. ACTION NEEDED

If doing nothing will no longer do, then what is needed?

The most general objective is to provide for a diversified and dynamic U.S. economy, with a strong industrial base as the foundation for healthy economy with an equitable distribution of jobs and incomes. International economic policy is only part of achieving such general goals, but it has now become an essential part.

At a minimum, the enormous gap between U.S. policy and the practice of the rest of the world must be closed. U.S. exhortation for other countries to cleave to the path of free market virtue seems, if anything, even less likely to succeed in the near future than it has been in the recent past. Whether one likes it or not, our trading partners/ competitors do not intend to leave something as important as the industrial future of their people to an abstraction like the invisible hand; they clearly prefer a more oncrete and controllable method.

A first step is to upgrade the system through which the United States responds to major imbalances in our trading relationships. The more ingenious methods now commonly used by other governments to artificially promote their exports or prevent ours must be quickly recognized under U.S. trade law and must be effectively offset.

Recognizing that we do indeed live in a world of industrial policy-based competition -- where "comparative advantage" in fact is more often the product of government action rather than of "natural" resource endowments -- we ought to be prepared to recognize and enforce principles required for civil international economic relations. One of these is that, while countries clearly have sovereignty over their internal economies in the conduct of their industry policies, they cannot thereby seek to intrude into the economies of other nations with artificially expanded exports. This is the logic of the GATT treatment of subsidies, and its distinction between export subsidies, generally prohibited, and domestic subsidies, which are permitted except where they can be clearly shown to cause injury to another country because of subsidized exports.

Our responses to classically unfair and illegal practices such as counterfeiting and patent violations, dumping, and injurious subsidies need to be made more certain and more timely, with the aim of preventing injury (not just responding to it) wherever possible.

The U.S. "escape clause," providing temporary relief from rising imports that seriously injure domestic workers and firms, should be liberalized to match the terms set forth in article 19 of the GATT, with a resultant lowering of the current U.S. injury and causation thresholds. In addition, our escape clause should provide for broader packages of relief for injured industries, combining trade relief with other measures, including commitments from private industry, needed to modernize and upgrade import-impacted sectors.

However much we upgrade it, U.S. trade remedy law, being strictly reactive in nature, is necessarily limited in its ability to close the gap between the unrealistic trade policy of the U.S. and the actual practice of the rest of the world. Since other countries are pursuing active industrial and trade policies, our trade law reactions to them can only be after the fact, usually quite late, and almost always incomplete. Active policies of our own are required in order to put the U.S. on an equal footing.

Upgrading lackluster or perverse U.S. policies toward export industries is one step in the direction of an active trade policy: U.S. exporters must have access to fully competitive export financing when they compete against foreign sellers backed by government-supplied export credits; the goal is not an export credit war, but rather equal conditions of competition needed to promote a progressive reduction in government credits as a factor in export sales; unilateral U.S. "disarmament", as pursued recently by the Ex-Im Bank and the White House, is a sure prescription for economic failure.

Likewise, we should close long outmoded U.S. tax loopholes designed during WW II to favor offshore investment by U.S. multinational firms over otherwise comparable domestic investments. The deferral on taxation of foreign-source corporate income ought to be repealed (as proposed by Presidents John Kennedy and Jimmy Carter) and the foreign tax credit replaced by a deduction or otherwise sharply curtailed.

Export credits and taxation of multinationals' foreign profits, however, are only single threads in the broad fabric of industrial and trade policies which are pursued on an active basis by Japan, the NICs, and, to a lesser extent, Europe. To be fully competitive, U.S. industrial policy needs to be moved above the realm of the incidental, unintentional, and uncoordinated. Tax, technology, adjustment, education and trade policies need to be coordinated with the aim of strengthening the health of the U.S. economy, relying on a tripartite framework that can draw upon the knowledge and experience of business and labor as well as government and other concerned public interests. (See the AFL-CIO/IUD industrial policy white paper, "Rebuilding America: Toward a National Industrial Policy.")

A precondition for the success of an industrial strategy of course is a sound macroeconomic framework. Th most perfect industrial development programs would be doomed to failure faced with record real interest rates an exchange rates that act as subsidies on all U.S. imports and a heavy tax on all U.S. exports. Yet while the general priority of macroeconomic conditions can not be stressed too much, it is equally important to realize that the structural imbalances of trade in individual industries discussed here long pre-date the recent overvaluation of the U.S. dollar. Closed foreign markets, rich industry targeting schemes abroad aimed at export expansion, lackadaisical enforcement of U.S. trade laws and ignoring the realities of the international marketplace are not the product of misaligned currencies and will not be remedied by exchange rate adjustment -- if indeed it was known how an exchange rate realignment could be reliably brought about.

Finally, there remains the need for agreed international rules for the pursuit of national trade policies and, because they are increasingly inseparable, industrial policies. The U.S. may be able to gain needed leverage for negotiating such agreed rules from firmer application of sensible U.S. trade policies and development of coherent U.S. industrial policies; at least on that basis we would have something to bring to the table, in contrast to the stalemated exhortations with which we seek to bargain today, having already given away everything of interest to our trading partners/competitors in prior rounds.

Beyond general rules for industrial and trade policies, however, there remains the expanding category of what might be called 'problem sectors.' The most widely recognized of these are industrial sectors that are typically suffering from global overcapacity, where many if not most countries are already applying import restraints and also seeking to apply industrial policy measures to enhance efficiency and competitiveness. The classic cases are well known: textiles and apparel, steel, auto, heavy electrical equipment, and shipbuilding.

What has emerged in each of these problem sectors is one form or another of managed trade. Most often, individual countries adopt similar national policies -- quotas and local content requirements in auto, a network of bilateral "voluntary" export restraints (or informal quotas) in steel, strict "buy national" policies coupled with cut-throat export subsidies for heavy electrical, cabotage requirements and domestic subsidies for shipbuilding, and so forth. Only in textiles and apparel has a formal multilateral system emerged, the MFA, which brings together importing and exporting countries to negotiate a multilateral umbrella agreement that governs a network of bilateral agreements for each of the major importing countries.

The model of managed trade seems to be imposing itself on world trade in a growing number of sectors. The U.S. in particular seems to be having some difficulty in deciding whether it should go along (as in the 1984 steel decision) or pretend it isn't happening (autos, 1985, and the maladministration of the MFA over the past four years). The resulting vacillation can be a destabilizing factor itself in particular industries -- for instance, where the U.S., Japan, and the EC all have de jure or de facto limitations on steel imports, but where they at the same time compete against one another in providing subsidies for building new state of the art steel mills in Korea and other low-wage countries. By deciding to ignore these patterns of de factor managed trade in other countries, the U.S. leaves itself open to losing out very badly in key industrial sectors which other countries -- for a variety of reasons -- have chosen to defend in their own economies. The threat is not just that the U.S. will be exposed to uncushioned market pressures, but that -- because the rest of the world has blocked market-determined outcomes -- the U.S. will receive far more imports and lose far more domestic production and jobs than "market" competition would produce. For a major country to act as if market conditions prevailed when they patently no longer exist is not only naive but self-destructive.

Trade in the products of emerging industries has come to be characterized by many of these same features traditionally associated with trade in the more mature industries. Protection of home markets and extra support for domestic production have become commonplace in other countries for such sectors as telecommunications, electronic equipment (including computers) and semiconductors, biotechnology, renewable energy systems, robotics, computer-controlled machine tools, and more. Unfortunately the United States government is even more perplexed by these international trade and industrial policy developments than it is in its confused responses to comparable trade and industrial policy developments in established industries.

One principle that can accommodate many of these developments is the one spelled out above in relation to the international repercussions of industrial policy: that countries are and should be free to develop industrial strategies which impact within their own borders, but that they should not be free to develop industrial policies that artificially enhance export performance and thereby displace production and employment in other countries.

The situation in emerging industries such as telecommunications equipment combine both import and export problems in a way that requires a clear U.S. response. Despite years of negotiations in different forums, competitive U.S. products are kept out of the large and rapidly growing Japanese market by a host of formal and informal barriers (not tariffs significantly). Conversely, in what can be seen as a parody of normal U.S. policy, antitrust action by our courts and deregulatory action by independent regulatory agencies and the Congress have resulted in a unilateral opening of the vast U.S. market previously restricted to domestic suppliers.

We opened up the world's largest telecommunications market and got nothing in return. And now, even after the fact the Japanese have made it quite clear that they intend to keep their home market effectively closed (as do all other major industrial countries which produce telecommunications equipment); what is not clear is whether they mean to keep their market to themselves only up to the point where they have so developed their product and production technology that import restraints are unnecessary to foreign products out, or whether they contemplate a long term, essentially permanent, reservation of the Japanese market for Japanese producers. It should be noted that the deviation from the de facto international norms in this case lies with the United States, not with Japan: the unusual (not to say illogical) action was the unilateral opening of the U.S. market, not the maintenance of a closed market by Japan. The restoration of "normal" trade relations in this environment would be for the United States to return to the status quo ante -- i.e., before the courts and deregulators started making trade policy without knowing what they were doing. Another satisfactory outcome, but one very unlikely to be achieved, would be for Japan and the other major telecommunications suppliers (with Korea and Taiwan coming on fast) to provide comparable competitive opportunities for U.S. producers as we have provided for them. Realistically, however, the prospects for this must be considered slim at best.

Mr. **Wirth**. Thank you very much, Mr. Samuel.

Mr. Yochelson.

STATEMENT OF JOHN N. YOCHELSON

Mr. **Yochelson**. Thank you very much, Mr. Chairman. I will cover three points; First, the outlook for the international trading system; second, the competitiveness issue; and third factors that are specific to telecommunications. It is hard to believe listening this afternoon that the United States is coming off its best year ever since the early 1950's and that the advanced industrial economies last year grew at over 4 percent. Under those circumstances one would normally think that prospects for world trade would be excellent, and yet there is a tremendous amount of gloom about the future of the trading system. And as Mr. Strauss indicated, there is a sense that we are, over the next couple of years, in a true make it or break it situation.

I would like to briefly touch upon five factors that I think underlie this gloom about the international trading system.

First of all, I call attention to the huge capital flows that are overwhelming the trading systems. According to the Department of Treasury, Mr. Chairman, capital flows last year exceeded the amount of trade by 15 times. World trade was about $1.8 trillion. What that translates into in practical terms is that these capital flows determine exchange rates, not trade deficits and trade surpluses. We are in a situation in which the United States has been running major trade deficits, but that is not being reflected in the value of the dollar at all. The dollar has gone up by 50 percent, since 1981 as Mr. Bergsten referred to in his testimony, since 1981.

Second of all, Mr. Chairman, and we have touched upon this, pressures on all governments, our own and other governments to intervene in the marketplace are on the rise. There is no sector in world trade in international commerce these days that isn't managed.

No. 3, the newly industrializing countries have advantages in technologically simpler, labor-intensive industries and they are pressing them; for example, steel, textiles, and shipbuilding. They are also keeping barriers around their own markets. The combination of aggressive export policies by the newly industrializing countries and domestic protectionism is a particular source of strain and I think that Congressman Oxley referred to that in the context of Taiwan and Hong Kong.

We have already touched upon Japan and its surplus. I don't think that I need mention that. I can only say that the efforts that the Japanese have made over the past years have failed to shake anybody's view that their market is as open as the other advanced economies. And that's not just our view. If one travels around, Southeast Asia, one finds the exact same thing.

Finally, Mr. Chairman, there is the simple fact that the United States cannot continue to sustain these trade deficits. I believe that this has also been covered. I would simply like to point out that in the longstanding surplus sectors where we do have comparative advantage—agriculture, high technology, and services—are our trade balances declining or collapsing.

This means, I believe, that everyone is on the defensive. Everyone agrees in principle that open markets are important and good and yet adhering to that standard is an extremely heavy one. The credibility of international trade institutions, the multilateral institutions is down. And naturally in this sort of situation, our trade policy has become more assertive and for good reason. The President has thrown his weight behind a multilateral trade negotiation to begin early next year. We have said we will sit down with lesser numbers of countries and work with them, if they are willing to liberalize trade. We are pressing bilaterally especially with reference to Japan. These are minimum efforts to contain protectionism.

The question that I would like to raise right now is what will these trade-related efforts do in terms of the competitive position overall of our economy.

A tremendous amount of work has been done on competitiveness and I would just like to get briefly into the relationship between trade and competitiveness. A huge number of studies have been done, and I would like to give an overview of my reading of them. They have been done by Harvard Business School, Brookings, the Stock Exchange, the Business Roundtable, and by Government agencies.

Three or four quick points on our overall competitive position. First, as Mr. Samuel indicated, our problem started in the 1970's in a situation quite different from today, high inflation, weak dollar, and yet we started to lose market and we became sensitive to it.

Second, this debate about our competitiveness initially was on the import-competing basic industries, such as automobiles and textiles. We felt fairly comfortable about our position in high technology and, up through 1983, we were generating very big surpluses across the board in high technology. They were declining but we were nevertheless generating them. As far as whether or not we have deindustrialized, I would take a somewhat different view from Mr. Samuel in that regard. There has been a tremendous amount of work on this and I think there is a substantial body of evidence to suggest that the composition of our manufacturing sector is changing. It is true the services are generating a lot of jobs, but there is a great body of evidence that suggests that we are not deindustrializing as a nation. Our high technology industries have outperformed the rest of the economy in terms of productivity, investment, cost containment, export earnings, and so forth.

Concern over advanced technology is relatively recent. It has emerged over the last couple of years in spite of the extraordinary resurgence of our economy since 1983. The factors, I think, that have caused this concern about high technology are the plunge in our trade balance in high technology, success of overseas firms in our markets, the realization that the United States advantage in lead time in technology has shrunk, and the growing practice of targeting by others in these high-technology sectors.

This would suggest, Mr. Chairman, that the United States does not face an overall structural problem of competitiveness. We have pockets of competitiveness problems, both in import competing industries and export industries. We are having a tremendous pace of change in our economy.

If the overall analysis reflected in all these studies is true, the main threat to our competitiveness would look to be in the value of the dollar. If the dollar softened, we would as an overall economy start to be in stronger shape. If this analysis is correct, the key to improving our competitiveness isn't in trade policy, but it is in macroeconomic policy. Trade policy makes a difference at the margin. This is the perspective that was put forward by Mr. Bergsten. The problem is bringing down the budget deficit, bringing down interest rates and some fiscal expansion by our trading partners.

The question, Mr. Chairman, is whether or not this general line of analysis applies to the sector under consideration this afternoon, telecommunications. I think that, for a number of reasons, that it does not apply. Let me outline.

First of all, the international telecommunications market is dominated to an extraordinary degree by Government procurements which accounted for about 60 percent of the $33.8 billion of market for equipment outside the United States in 1983. Price considerations in this particular sector are outweighed by the interests of governments in fostering national telecommunications industries.

Second, the U.S. telecommunications market, as you have noted in your opening statement, Mr. Chairman, was deregulated and opened up for very justifiable and important domestic considerations. Overseas markets are not open. And this unilateral opening of our market has left U.S. producers at a major disadvantage.

Finally, Mr. Chairman, as you have observed, we do have a dominate position technologically and this has not been reflected in our trade performance. We account for almost 40 percent of worldwide consumption in telecommunications and yet we are exporting only 10 percent of our production. Japan, which is less than 10 percent of the worldwide market is exporting 22 percent of its production. Canada is exporting 21 percent of its production. The European communities are exporting 19 percent of their production. We are down at 10 percent.

There is no doubt that we face a specific challenge in telecommunications and I would like to just conclude by offering four observations as you develop your approach in these hearings.

First of all, we need to define our interests with respect to the telecommunications trade.

We have mentioned this afternoon the matter of expanding access in overseas market for equipment producers, but we also have major interests in telecommunications services, in related software, in investment, in the context that Congressman Bryant raised of buying up an overseas company if we want to, and in technology transfer. I hope that the subcommittee will in, the course of these hearings, illuminate those interests that we have and what the tradeoffs might be amongst them.

Second, we need to define negotiating objectives. Right now we are just looking at the question of Japan. That is the topic of the moment. But just singling out one nation, even our strongest competitor, might cause us to overlook or underrate other situations that deserve attention. Our challenge in Europe is different. There, U.S. multinationals can participate in the European market. At

TESTIMONY OF

JOHN N. YOCHELSON

DIRECTOR, INTERNATIONAL BUSINESS AND ECONOMICS
CENTER FOR STRATEGIC AND INTERNATIONAL STUDIES,
GEORGETOWN UNIVERSITY

Good afternoon, Mr. Chairman and members of the Subcommittee. I am John Yochelson, director of International Business and Economics at the Center for Strategic and International Studies, Georgetown University. I would like to thank you for giving me the opportunity to share my views with you on international communications trade as you launch this timely and important set of hearings.

For purposes of this overview session, my introductory remarks will highlight: (1) the outlook for the international trading system; (2) prospects for overall U.S. competitiveness in the world economy; (3) factors specific to U.S. interests in the telecommunications sector.

Mr. Chairman, concern over the future of the international trading system is at a postwar high even though the advanced industrial economies averaged more than 4 percent real growth in 1984 and are likely to approach that in 1985. Normally, a global economic recovery like the one now underway should strengthen prospects for world trade. But many trade officials both here and overseas admit privately that the next several years could break the liberal trading system which the United States has championed over the past four decades.

Five key factors account for the increasingly sober perspectives that have taken hold:

First, capital flows of enormous magnitude have warped the trading system through their impact on exchange rates. These financial flows, estimated by the U.S. Treasury to be at least 15 times greater than the $1.8 trillion value of world trade in least we are on the ground. We aren't in Japan in nearly the same degree. There is also the question of the developing countries, and we have got to get our sense of what our priorities are in this area.

Third, we need to formulate strategies which will advance our interests. Should we take the bilateral route, should we take the multilateral route? How do the bilateral and the multilateral relate to each other?

Fourth, we need to think through this matter of leverage. Clearly, as all of us have suggested this afternoon, our ultimate leverage is access to our own market, the largest in the world. But the use of the leverage could be costly. It could be costly in high technology, where we are very interested in exports and where it is precisely in our area of strength that others may retaliate against us.

As for the role of Congress, Mr. Chairman, there is no question that Congress has leverage on this situation. I think that the crux of this is whether or not additional pressure is going to bolster our negotiators or whether or not it is going to bring on retaliation. I wish I could give answers to all of these questions, but I think they are some of the right ones and I appreciate the opportunity to raise them with you.

Thank you.

[Mr. Yochelson's prepared statement follows:]

1984, have swamped trade surpluses and deficits in determining rates of exchange between currencies. The dollar has risen 50 percent relative to other currencies since 1981 in spite of massive trade deficits. Coordinated efforts to stabilize exchange rates have been temporarily effective at best, given the scale of the international capital market. As a result, the competitive positions of Western economies are being decisively shaped by powerful and very elusive forces.

Second, pressures on governments to intervene in trade matters continue to rise. The integration of world markets has created opportunities and exposed vulnerabilities that have brought national authorities increasingly into play: to shield declining industries or protect newly established ones; to boost export earnings; to secure competitive advantage in overseas markets; and to overcome foreign exchange shortages. The practice of managed trade has become more a norm than an exception--constraining market forces in every major sector of international commerce.

Third, the newly industrializing countries have generally resisted the adjustment of their positions to reflect new realities. The NICs have pressed their advantage in technologically simpler, labor-intensive industries such as steel, textiles, and shipbuilding. They seek expanded access to overseas markets-- whether to service debt obligations or to produce earnings that will enable them to move upscale technologically. At the same time, the NICs have tended to preserve barriers around their own domestic markets. The combination of aggressive export policies and domestic protectionism has been a particular source of stress, especially as regards the large trade surpluses of Taiwan, Korea, Singapore, and Hongkong.

Fourth, Japan's current account surplus, which reached $33 billion with the United States alone in 1984, has become a major flashpoint. The strengths of the Japanese economy that underlie its superior trade performance are the envy of the rest of the world. But successive Japanese initiatives to reduce tariffs, internationalize the yen, and improve market access in other ways have failed to shake the widely held view that the Japanese market is less open than those of other advanced economies.

Finally, the United States cannot continue to sustain the widening trade deficits of recent years. There is no question that U.S. economic resurgence has reenforced the American leadership position internationally and that our recovery has pumped timely and vitally needed demand into the world economy. But the soaring dollar has put U.S. industry under relentless pressure. From 1983 to 1984, the U.S. trade deficit increased by nearly 80 percent to $123 billion. U.S. exports increased in absolute terms, but largely at the expense of profit margins. Moreover, longstanding surpluses in sectors of comparative U.S. advantage--agriculture, advanced technology, and services--have either declined or collapsed altogether. The U.S. share of foreign markets shrank, while a 30 percent increase in imports cut heavily into the U.S. domestic market. It comes as no surprise that the political constituency favoring open markets has eroded in the United States and that the administration has adopted an increasingly assertive stance on trade.

The clouds that hang over the international trading system have left all governments on the defensive. All concede the net benefits of open world markets, yet the practical costs of adhering to that standard are increasingly heavy. Under these conditions, the credibility of the GATT as a forum for addressing the current trade agenda has naturally diminished.

President Reagan has thrown his full weight behind a renewed effort to reverse current trends through a new round of multilateral trade negotiations to begin late this year or early next. The administration has indicated that it is prepared to sit down on a more selective basis with nations that are ready to liberalize trade. US officials have also pressed bilaterally for increased access to overseas markets.

Mr. Chairman, these negotiating efforts are minimum requirements for containing protectionist pressures in the United States--but what will they do for the competitive position of U.S. industry in world markets?

As you know, much searching analysis has been done over the past several years with regard to US competitiveness not just in government and academia but on plant floors and in board rooms. Within the past 12 months alone, three blue ribbon groups have reported to the President while major studies have been pubished by the Harvard Business School, the Brookings Institution, the New York Stock Exchange, the Business Roundtable, and the Committee for Economic Development. The list goes on and on.

It would not be appropriate here even to begin to review the work that has been done on competitiveness, but I would like to call to the subcommittee's attention some of the key points which are particlarly relevant as you begin these hearings:

First, a competitiveness problem for some U.S. industries emerged in the 1970s under conditions quite different from those of today i.e. a weak dollar and high inflation. It was in the decade of the 70s that the newly industrializing countries came on stream in world markets in labor-intensive sectors using standardized technology and the percentage of trade in US GNP jumped from less than 10 percent to more than 15 percent. It was also in this decade that the US share in overseas markets began to decline relative to Japan and Western Europe. As a matter of fact, the concept of industrial policy as a possible response to U.S. competitiveness problems actually started to be developed in the late 1970s.

Second, the U.S. competitiveness debate focussed initially on import-competing basic industries: steel, automobiles, textiles and footwear most notably. The circle of impacted industries widened during the 1970s to include such sectors as consumer electronics and machine tools, but U.S. strength in high technology was widely regarded as unsurpassed. The large (though steadily declining) trade surpluses generated by U.S. high technology through 1983 seemed to confirm this view.

Third, an impressive body of evidence suggests that the U.S. has not been deindustrialized by foreign competition. The services sector is generating more jobs than manufacturing, but the composition of the manufacturing sector is being transformed by the growth and application of high technology. The output of high technology industries has been growing at twice the rate of U.S. industrial output as a whole. High technology industries have outperformed the rest of the economy in terms of productivity, investment, employment, the containment of prices, and export earnings.

Fourth, even with the extraordinary resurgence of the U.S. economy since 1983, concern over the competitive position of our high technology industries has sharpened significantly. Many factors have converged to bring this new preoccupation to the fore: the plunge of the US trade balance in high technology into the negative for the first time in 1984; the success of overseas firms, especially Japanese firms, in the US domestic market; the realization that US advantage in lead time in technological innovation has diminished greatly; the growing practice of overseas sourcing of components by U.S. high technology companies; and increased awareness that U.S. trading partners are aggressively targeting the same limited number of technologies which will shape the future of our own and the world economy.

Fifth, students of the new technological competition generally agree that the main burden of competing effectively falls on management and labor--not on government. Government can help create an environment for growth and innovation through consistent macroeconomic policies that increase the play of free market forces, improve incentives for investment, and strengthen the quality of human resources. Poicy adjustments may also be required to facilitate the pooling of resources among competing firms through cooperative R&D efforts in some areas. While the critical role of government support for defense technology is widely accepted, there is much wariness of excessive public sector intervention. As for the use of trade policy, the unvarnished free trade stance of high technology industries in years past has now been qualified. Increasingly, government is being asked to help secure access to foreign markets. But, precisely because of their stake in exports and because of their strongly multinational character, many U.S. high technology companies remain leery of inviting retaliation by restricting access to our domestic market.

Viewed as a whole, Mr. Chairman, the voluminous work on overall U.S. competitiveness does not suggest that we have an underlying structural problem. We clearly have pockets of problems in both import-competing and export sectors. The pace of change and adjustment in our economy has accelerated under the Reagan administration. On the one hand, the recession of 1981-82 and the strong dollar have compelled firms to streamline operations and increase productivity. On the other, fiscal incentives, deregulation, and large inflows of foreign captial have powered an extraordinary expansion.

In light of this analysis, the main threat to the competitiveness of U.S. industry looks to be the value of the dollar. If the dollar softened, U.S. industry generally and the high technology sector in particular would see their positions in our domestic market and in world markets strengthened. Therefore, the key to improving competitiveness is not so much trade policy but macroeconomic policy. Trade policy can only make a difference at the margins. The central problem is bringing down the borrowing requirements of the U.S. government. This would gradually reduce interest rates and--combined with more expansionary fiscal policies in Japan and some European countries--result in a decline of the dollar.

Mr. Chairman, the subcommittee will have to decide to what extent this general line of analysis squares with the realities of trade in telecommunications. Several factors specific to the telecommunications sector suggest that it does not:

--The international telecommunications market is dominated to an extraordinary degree by government procurements, which accounted for fully 60 percent of the $33.8 billion non-U.S. market for equipment in 1983 according to the Office of the U.S. Trade Representative. Price considerations in the most important overseas markets--Western Europe and Japan--are outweighed by the interests of governments in fostering national telecommunications industries.

--The U.S. telecommunications market has been opened to overseas competitors for very justifiable domestic economic reasons without any corresponding quid pro quo from our trading partners. This unilateral opening of our market has left U.S. producers at a major disadvantage.

--The dominant position of the United States as a producer and consumer of telecommunications equipment is not reflected in any relative measure in our trade performance. We account for almost 40 percent of worldwide consumption and production, yet we exported only about 10 percent of our production in 1983. Japan exported about 22 percent of its production, Canada about 21 percent, and the European Community about 19 percent. In a sector where U.S. technology is unsurpassed, these statistics give much cause for concern.

Mr. Chairman, there is no doubt that we face specific trade challenges in telecommunications that deserve priority attention. I am sure that the Subcommittee will see that they continue to receive such attention from the Executive Branch, as they clearly have both in bilateral negotiations with Japan and in our agenda for the next GATT round.

As the subcommittee develops its approach to telecommuncations trade, I take the liberty of offering the following views:

First, we need to define our interests with respect to telecommunications trade. To be sure, we should seek expanded access to overseas markets for equipment producers. But we also have major interests in telecommunciations services, software, investment, and technology transfer. These interests, and the trade-offs among them, have to be understood.

Second, we need to define negotiating objectives. At the moment, access into the Japanese telecommunications market is commanding much attention and is being treated as an overall test of our trading relationship with Japan. Yet just singling out one nation--even our strongest competitor which is moving in the right direction but far too slowly--can cause us to overlook or underrate other situations which deserve attention. Our challenge in Europe is different in a number of ways from that of Japan. We are bound to face an increasing challenge from the newly industrialized countries. It is essential that we establish priorities.

Third, we have to formulate strategies that will advance our interests. Can our interests be most effectively advanced bilaterally or multilaterally or through a combination of both? How are bilateral and multilateral approaches related? How are our interests in telecommuncations integrated into our overall trade strategy?

Fourth, we must think through our use of leverage to achieve our objectives. Our ultimate bargaining power lies in the restriction of access to our market--by far the biggest in the world. Yet the use of such leverage could be very costly to our high technology sector and to our stakes in open world markets. In my judgement, the Executive Branch can bring credible pressure to bear on our trading partners under existing trade legislation. But Congress can further add to the pressure. Will doing so bolster our trade negotiators or bring on retaliation?

Mr. Chairman, I wish that I could give ready answers to these questions. I believe that they are important ones, and I hope that they will help provide a framework for the Subcommittee as it looks into the issues in detail.

Mr. WIRTH. Gentlemen, thank you very much. That was as fine a panel presentation on a difficult issue as I have heard in a long, long time and I greatly appreciate your being here.

Let me start with a statement Mr. Yochelson made and then come back to you, Mr. Bergsten, and then to Mr. Samuel with the question.

Mr. Yochelson said that in telecommunications we "face a specific challenge," that here we have a market that may be defined as being different from other kinds of markets because our governments are so deeply involved and there has been in all of these a history of government monopolies. Therefore, the telecommunications market ought to be treated differently. Is that a fair summary of the specific challenge, to use your words.

Mr. YOCHELSON. I think that the specific aspects of this sector have got to be taken into consideration right up front.

Mr. WIRTH. If that is the case, and I think our experience would show us that that is the case, not only in Japan but we are dealing with European governments in telecommunications markets as well. It is an issue that we face in Europe as well as Japan, then, Mr. Bergsten, would you argue that the issue related to the dollar would still come first or do we have to do both, or how would you reconcile Mr. Yochelson's analysis with your prescription?

Mr. BERGSTEN. I would certainly say you would have to do both, in terms of policy response. As I said at the outset of my remarks, even though I think unfair trade practices account only for a minor part of the total deterioration of our trade position, you have to go at them wherever they exist and as vigorously and effectively as you can. So I certainly do not mean that one should exclusively work on the dollar and the macroeconomic side.

I don't pretend to be an expert on the telecommunications sector, but I would point out that a couple of the points mentioned by Mr. Yochelson would not be surprising when viewed from an overall perspective. He said something is wrong because U.S. firms only export 10 percent of their total sales in the telecommunications sector, while the Europeans do 20 percent. But that simply replicates the aggregate picture. The United States as a country, does now and always has exported a very much smaller share of total output than the Europeans. In fact, in the aggregate, the disparity is even greater than he pointed out in telecommunications—we now export something like 7 to 8 percent of GNP, Germany 25 to 30 percent, the United Kingdom 25 percent, Japan about 15 percent. So, compared with the norm, there is no surprise.

Likewise, if one looks at the deterioration in our trade balance in telecommunications, it has gone from, a modest surplus in the early 1980's to a deficit now of a billion dollars or so. There has been a deterioration of a little over a billion dollars over the last 4 years. As I pointed out, the total deterioration of our trade balance has been a hundred billion dollars, so telecommunications has accounted for about 1 percent of that. Pari passu, it has been in the same ballpark in terms of percentage deterioration.

I in no way mean to suggest that one should not therefore pay attention to the particular barriers in this particular sector. Indeed, when I was involved with Ambassador Strauss, Under Secretary Samuels and others in the Tokyo round, we made a big push through the Government procurement code to at least begin to open things up. It obviously hasn't worked to anything like the degree that we hoped it would, but, again, when viewed in the broader perspective, one would perhaps not be as surprised at these numbers in telecommunications as one might be just looking at them in absolute terms. I would suggest that price makes a difference in this sector, too, even though one in addition has to look at the procurement practices.

Mr. **Wirth**. Let me ask you, Mr. Samuel, for a third piece of this puzzle. The first piece is the specific challenge that Mr. Yochelson talks about coupled with the value of the dollar that Mr. Bergsten talked about. You, in your testimony, mentioned the process of deindustrializing, I think that was the word that you used, to penetrate these markets in the telecommunications area, to penetrate foreign markets. American companies have tended to develop joint ventures overseas and in order to get into those countries and in order to penetrate that market and sell at least part of the return on American investment there. One might argue on the one hand that this is a positive way of going about penetrating those markets. But on the other hand, one can argue in this particular area that that is going to lead to an even more rapid export of American jobs—the fundamental problem that you have focused on in your testimony. What I am trying to do is to see if we can frame this issue as it comes specifically under the jurisdiction of this subcommittee to understand the various pieces of this and this is a third, I think, Mr. Samuel, that falls particularly into your area of expertise.

Mr. **Samuel**. Yes. Strange as it may sound, I think I agree and disagree with each of the other members of the panel to a certain extent. I agree with Mr. Yochelson that the issues raised by the telecommunications industry warrant very special consideration and I think probably special remedies. On the other hand, I guess I would disagree, otherwise, that almost every sector of our industrial society and many of the services presents special considerations. Every industry has a different profile in the international arena. Each one presents a special kind of challenge which has to be met and I think the recommendation I made to you is that what we need are certain laws which would allow us to get a handle on the problems of each of those sectors. Let me take the automobile industry, for example. There the problem is more of blocking third markets. As all of you are aware, Japanese automobiles in the European community are relatively rare, 10 or 11 percent caps in England, France, Germany. I think Italy somehow has come up with a number of 2,200 cars. Why are we being flooded with Japanese cars? Because they have no place else to go. That is a different kind of a problem, but to a certain extent quite equivalent to the problem that we are facing in telecommunications and the problem of blocked markets in Japan and several other countries as well.

So, it seems to me that we have to devise methods of looking at all of these problems and at all of their complexities and devising remedies which would meet each one of them in turn, as well as the macro suggestions that particularly Mr. Bergsten made that certainly play a very important role as well.

Mr. **Wirth**. Mr. Bryant.

Mr. BRYANT. I would like to ask Mr. Bergsten to go ahead and tell us why we have such a strong dollar. You started in that direction. I would like you to proceed.

Mr. BERGSTEN. Again, there are a variety of causes. Part of it is the so-called safe haven effect. The United States is viewed as the safest place to put money in a world of economic and political turbulence. That is obviously a good thing from our standpoint. We wouldn't want to undermine it. A second reason is the rapid economic growth here the last couple of years, with profit opportunities and after tax returns looking good. Clearly that is something we like, and we don't want to undermine it.

I think, however, the largest factor and certainly the one most susceptible to policy is the huge deficit in our Federal Government accounts and, directly related, the very high real interest rates that continue to persist in our money markets. Those high interest rates have sucked in capital from abroad, and they continue to do so. As Mr. Yochelson said, those capital flows have swamped the trade account and pushed the dollar to levels that are totally unrelated to our underlying competitive ability. So, the key policy conclusion is to get the budget deficit down, take that strain off the capital markets, and let interest rates come down. In that environment, the Federal Reserve could loosen monetary policies somewhat without fearing the reignition of inflationary expectations, and bring interest rates down further. It seems to me that is clearly the central point that needs to be taken on by the Congress and the administration, and it is the most important single step to deal with these trade problems.

Mr. BRYANT. Would you just go backward and explain, kind of help us make our record here, exactly what happens if you bring the budget deficit down, then what happens and then what happens because of that?

Mr. BERGSTEN. If you significantly reduce the budget deficit, by which I mean a hundred billion to a hundred and fifty billion dollars a year by 1987 or 1988, you would be taking an enormous demand off the U.S. capital and money market because then the Treasury Department would have to borrow much, much less to finance the budget deficit. That in turn would let interest rates come down to a much lower level; and, therefore, much less capital from around the world would flood into the dollar and therefore the dollar exchange rate would moderate.

Mr. BRYANT. Now, those people bring that money in here because when they invest it in something it will pay them an interest rate?

Mr. BERGSTEN. As I say, there are several factors but that, on my judgment, is the dominant factor. It is certainly the one we can do most about in a constructive way. People put their money in treasuries, in bank deposits, in a whole range of U.S. investment media because the return is high and that goes directly to our high interest rates.

Mr. BRYANT. But the connecting factor, I assume, is that they have to convert their foreign currency into dollars.

Mr. BERGSTEN. Exactly.

Mr. BRYANT. The demand for dollars then causes the price of a dollar to go up?

Mr. **Bergsten**. That is exactly right.

Mr. **Bryant**. That's all I wanted to ask.

Mr. **Wirth**. Mr. Oxley.

Mr. **Oxley**. Thank you, Mr. Chairman. Mr. Bergsten, what is the tradeoff, then? Is it necessarily higher inflation in this country for the policies that you have talked about?

Mr. **Bergsten**. The fact that the dollar has risen so sharply has been an important factor in bringing our inflation down over these last few years. On my estimates, the annual inflation rate is probably running about 2 percentage points a year less than the underlying or core rate because of the rise of the dollar. When the dollar moves back to a more proper level, in terms of trade competitiveness, we would then temporarily suffer a rise in prices. It is a temporary rise because only as the dollar is declining back to that new equilibrium level would our prices go up at a higher rate. Once that was completed and the dollar planed off, we drop back to the underlying or core rate which looks pretty good.

Mr. **Oxley**. You premised your remarks, I think, on the idea that perhaps we would cut into the deficit—I think you said a hundred or a hundred and fifty billion a year. I think all us know that that is not particularly realistic. As a matter of fact, if we could get to 50 billion, I think a lot of us would feel that that is a realistic goal.

Assuming the $50 billion goal this year, fiscal 1986, and an effort to basically halve the deficit in the next 3 years, which I think is a realistic goal, what difference would that make in your projections and is it significant?

Mr. **Bergsten**. Just on the premises, I suggested bringing the budget deficit down by $100–$150 billion by 1987 or 1988. That could encompass a first year move of $50 billion, but then I would hope to build onto that. If you took action now that had the promise of bringing it down by, say, a hundred billion even 2 or 3 years out, I think you could expect the level of interest rates to come down by something like 2 to 3 percentage points. That is not a precise number, but something like a percentage point per $50 billion of budget deficit is what most analysts and market practitioners think is probably about right. If, in addition, you could get the Federal Reserve to then loosen up a little bit, because the risk of inflation reigniting was reduced because of the lower budget deficit, perhaps you would get a little more than that. But I think you would get 2 to 3 percentage points anyway and that would, I think, have quite a significant impact over time in correcting the dollar exchange rate.

Mr. **Oxley**. I would like to ask each one of you gentleman what role you feel over the last few years the differential in wage rates, particularly between Japan and the United States, has played in the overall problem that has developed in the trade deficit area. Let's start with you, Mr. Bergsten.

Mr. **Bergsten**. I think that question is not possible to answer per se. Countries' overall trading relationships including through the exchange rate, mirror all the elements in their competitive position—wages, productivity, tax rates, the whole range of variables. In principle, lower wages in a country reflect lower productivity in that country and, therefore, get netted out in terms of competitive positions. That is in a sense not a helpful conclusion, because it is in the aggregate. Individual industries may differ. But I think what we see in recent years is that Japanese wages have been rising very rapidly, much more rapidly than our own, reflecting the more rapid rise in Japanese productivity than our own. I am not sure that the two taken together have really had much net effect on the trade position at all.

Mr. Oxley. Mr. Samuel.

Mr. Samuel. I suppose the fact that Mr. Bergsten has said some of the things at least that I would have said, but his saying them are certainly much more credible. I would like to also add, however, the fact, as I am sure you are aware, that manufacturing wages in this country have been steadily falling behind the cost of living for something like 12 or 13 years. This is on the average.

Second, I guess I would suggest and I could pick up here from another report that Mr. Yochelson didn't mention on competitiveness, the President's Commission on Industrial Competitiveness, which points out that the purpose of achieving a competitive economic society is not to do so by reducing our standard of living but to be able to maintain it and even increase it. It is our high standard of living which has been, I think, perhaps the single major source of our strength. So that certainly if we look for ways to assure our survival in a much more competitive world, one of the ways should not be to reduce our standard of living.

Mr. Oxley. At least for a certain sector of the economy.

Mr. Samuel. At least not as—I would hope not any sector of the economy.

Mr. Oxley. Mr. Yochelson.

Mr. Yochelson. The only point I can add is that the Japanese do work longer hours than we do.

Mr. Oxley. What is the basic wage rate in the auto industry compared to ours? It is my understanding that it is about a third.

Mr. Yochelson. It is my understanding that it is about two-thirds.

Mr. Oxley. Two-thirds?

Mr. Yochelson. Yes.

Mr. Oxley. Thank you. Thank you, Mr. Chairman.

Mr. Wirth. Mr. Nielson.

Mr. Nielson. Thank you, Mr. Chairman. This morning we had testimony from Robert S. Strauss, former Trade Representative. He made two statements to which Representative Bryant referred. I would like you to answer the same questions. On page 15 he said it would be irresponsible not to retaliate. On the same page he said protectionism is not the answer.

Mr. Samuel, can you tell me the difference between those two things? When does retaliation stop and protectionism start?

Mr. Samuel. No, I think it is not so difficult to detect a difference and it is a very good question. Protectionism, after all, has a purpose in mind and that is to slow down or to close down the avenues of trade. It seems to me that the kinds of things that Bob Strauss is recommending that was not their purpose, it was to open up the doors of trade. It seems to me that if you keep the purposes in mind it is quite easy to design the kinds of remedies which are useful.

Mr. **Nielson**. Where does our tough stance start becoming protectionist instead of just being—it is like the Arab-Israeli conflicts, whether is it retaliation or is it unprovoked attack. It is always difficult to say because they all look the same to me, but I am still not clear either from your answer or his as to when are we protectionists. If we demand that they open their markets the same way we do, are we being protectionists?

Mr. **Samuel**. I don't see how that could in any way be defined as protection. I can say and I understand your question, if we take steps in order to achieve that goal, if you take steps to close our borders, then obviously we have to be careful that it doesn't lead to the opposite result.

Mr. **Nielson**. If they put a tariff on our goods and we put a tariff on it, are we retaliating or becoming a protectionist?

Mr. **Samuel**. If they put a tariff on our goods?

Mr. **Nielson**. If they have a tariff on our goods and we put a tariff on their goods, are we merely retaliating or are we being protectionist?

Mr. **Samuel**. Well, retaliation very often its basic purpose is not to close down trade but to open it.

Mr. **Nielson**. That's not the answer to my question.

Mr. **Samuel**. I think normally that is what the result has been.

Mr. **Nielson**. My question is: Is that protectionism or is it simply retaliation?

Mr. **Samuel**. If the purpose is to——

Mr. **Nielson**. No, no.

Mr. **Samuel**. If the purpose is to open up, then it seems to me then that is not protectionism.

Mr. **Bergsten**. As I understood it, you changed a key verb in your question. You started out by saying if the Japanese put on a tariff and we put on a tariff in response, which is it? In that case, it seems to me, it is clearly retaliation.

Then I think you said if they have a tariff and we put one on in response, what is that? That is a different case. If they have one and it's been there a long time and it's been part of negotiated history and there were deals made in the past that assumed it was in place, that's part of the past deal. Then if we put on a tariff, a new one, simply because they have had one there for a long time, that's protection.

Mr. **Nielson**. You say that even if the agreement was something that has been hurting us for a long time, we finally get around to it, looking at it carefully?

Mr. **Bergsten**. As in life in general, deals are deals. Sometimes after the fact you conclude that you shouldn't have made the deal, or you shouldn't have let a practice go on, and sometimes you want to change the rules. In international trade there are very clear rules.

In the case of tariffs, which is the easiest area actually, there is something called bindings. Under the international trade rules there have been a whole slew of negotiations, seven of them now since the war, in which a key element was to bind your tariffs. You agree, as part of an overall package that served your national interests or else you wouldn't have signed it, to bind your tariffs, that is, not to raise them in the future. Just because you later change your mind, think you made a mistake in the past, you don't have a right to do that. Now, you can still do it. If you are the United States and a big player, you may get away with it, but the other guy is then justified quite frankly in retaliating against you.

Mr. Yochelson. May I take a shot at that?

Mr. Nielson. Yes.

Mr. Yochelson. I think that really it is the difference between a scalpel and a sledge hammer. A sledge hammer is protectionism. A sledge hammer is 20 percent no matter what happens, everything. A scalpel is trying to do something that is more specific, that has a particular objective in mind. I gather what he was trying——

Mr. Nielson. At the extent to which we hurt the guy depends—Representative Bryant, if I may engage you in a colloquy, are you clear on the distinctions between the two since you raised the question to begin with?

Mr. Bryant. Well, I thought Mr. Samuel's answer was pretty good. If the purpose of the response is to force them to open up, it is hard to characterize that as protectionism. If the purpose of it is not to do that but just to protect the sector of our economy, I gather it would be protectionism. I liked the definition that Mr. Samuel gave.

Mr. Nielson. Well, I am glad you have it down pat. I will lean on you when that subject comes up.

Mr. Wirth. Thank you, Mr. Nielson. Mr. Bryant and I both have one final question and they go back to the particular area of telecommunications. It has been noted that we have, your words again, a specific challenge, Mr. Yochelson, and it has also been pointed out that Japan isn't alone among our trading partners in the telecommunications problem. We also have similar problems with the Europeans. Then Mr. Yochelson, you said that our challenge in Europe is different in a number of ways from Japan. Could you expand on that. How is the challenge in Europe different from that of Japan? Again, what I want to try to do is broaden this beyond just the Japanese situation. It seems to me that we get targeted on Japan. It is very much in the news and it is very valid to be concerned there, but we have to understand that this problem spills out elsewhere and I want to try to make that record as well as we can as well.

Mr. Yochelson. I would like to make three points with respect to Europe, Mr. Chairman. The first is that unlike Japan the European telecommunications market is highly fragmented amongst different countries that have their own PTT's, a German situation, a French situation, a Dutch situation. As a matter of fact, when you talk to people from these European telecommunications industries, they say it is just as hard to sell within the European communities, as it is outside. So there is the first difference, the composition of the industry.

Second of all, in Europe, we do have a significant number of United States multinationals who are participating there who got into Europe in terms of investment when the European communities were created in the mid-1950's and who are present and who are manufacturing. Now, that might not be making it here and selling it over there, but at least it is U.S.-based companies who have a share of the play. United States multinationals are not a factor in terms of the Japanese telecommunications market by way of production in Japan.

And finally, you have different states of play. In the United Kingdom, which is privatizing, they just issued stock in British Telecon. You have a different situation in Belgium which is moving in that direction generally, a different situation in Germany and thus I think that when we think this thing through, we have got to think it through in terms of the specifics of those countries.

If I might permit myself, I think that puts a finger on one of the fundamental choices which the subcommittee is going to have face. In one sense, one strategy would focus on sectors. Mr. Samuel's strategy: automobiles, telecommunications, services, and we could try to deal with our international trade problems looking at the sector and then looking at the country second.

The other way is to turn it around and to say we should develop strategies that focus on the country because it is on the level of Nakesone to Reagan or Thatcher to Reagan, that the basic tradeoffs can be made. That's where the deals get done. I think that is what Mr. Strauss was driving at when he raised the issue of getting this up on the Bonn economic summit. You get a certain kind of flexibility if your strategy is related to a country that you don't get when your strategy is related to a sector. But by the same token, you can't turn the heat on the same way. It is a question of tradeoffs, but I think that is a very fundamental choice for the subcommittee to think through.

Mr. **Wirth**. I guess I don't understand if those choices are mutually exclusive. It seems to me that there is a sameness. If we talk about the difference between the European market and the Japanese market, there is also a sameness, and there is a sameness to the fact that you have essentially historic government monopolies.

Second, you have selling to those monopolies essentially government-owned enterprises that have been accustomed to—although there is some privatization going on—that have been accustomed to selling into those markets.

Third, those markets have not been opened to foreign goods whether they are British goods selling into Germany or United States goods selling into Germany.

And finally, that our markets in the telecommunications area are remarkably open to German or British or French goods coming into this country just as they are to Japanese goods. So there is a sectoral sameness to the problem that would suggest that there is across the board a sectoral kind of treatment that we could do absent national boundaries. That would be the argument on one side and I suspect that Mr. Samuel might make that argument.

And on the other side, you have the Strauss argument that you have to do it country by country. So I am not sure that I understand if, in fact, you mean that those should be mutually exclusive strategies.

Mr. **Yochelson**. No, I don't mean they should be mutually exclusive. I think that they have to be integrated. When it comes to the politics of it, I think that there are some advantages between heads of government sitting down and looking at what there is to put on the table across various sectors. That was the only point I was trying to make.

Mr. Wirth. Do either of you have any comments?

Mr. Bergsten. I think you have to do both. You have a matrix with countries and issues and you have to fill in all the cells. Certainly when we tried to do the Government procurement code in the Tokyo route, to at least begin getting a handle on this area, we did it that way. As you said, you work to get across the commonality in the sector but, at the end of the day, it is countries you have to get to agree so you work both.

Mr. Wirth. And we have to remember also the jurisdictional issues in this Congress in which we are an opted Committee on Ways and Means and Congressman Gibbons' subcommittee, normally the Committee on Foreign Affairs and all of that set of problems, but we do have an explicit set of responsibilities in the telecommunications area and what we do at home is affected by what we do overseas which gets us to that point. So, part of that question, Mr. Yochelson, was to define what we can do in this subcommittee. It seems to me that there are some sectoral issues that are out there country by country which we have an obligation to address and can do perhaps without getting into a whole lot of other issues.

Mr. Samuel.

Mr. Samuel. Just very quickly, I am particularly concerned about depending too much on the person-to-person relationships at a summit. Except for perhaps Mr. Brock and Mr. Baldrige, this administration has not really indicated a great deal of interest in the problems of international economic trade. And it seems to me that Congress is going to have to step in and fill part of that vacuum, particularly now with Mr. Brock's departure from the USTR. It is going to have to be done in a more systematic and active way than depending on a summit meeting.

Mr. Wirth. Mr. Bryant.

Mr. Bryant. I just want to ask each of you if your institutions have compiled any information or studies regarding the purchase of real assets in this country by foreign nationals and the relative imbalance between our ability to do that in their country and their ability to do it here.

Mr. Bergsten. My former institution, the U.S. Treasury Department, has done a lot on that and I am sure they could supply for you comparisons between the openness of asset accumulation here and abroad, including sector by sector. The Department of Agriculture did a study a few years ago, but I am sure they have updated it, on farmland: how much of U.S. farmland is purchased from abroad, what remaining obstacles there are and likewise on the other side. So I think the Government agencies could probably help you on that one.

Mr. Bryant. Mr. Samuel.

Mr. Samuel. No.

Mr. Bryant. Mr. Yochelson.

Mr. Yochelson. I think this issue did get a lot of visibility at the end of the 1970's in the context of the oil price hike and concern that the oil-rich countries were buying up a lot of U.S. assets. I believe that then Congressman Rosenthal ordered a study which may have been done by the GAO or by the Congressional Reference Service. My center hasn't done anything specific. I have the impression that those studies put to rest the fear that foreigners were buying up a lot of things. I am not familiar with any comparative work. There are, of course, figures that are available that are published by the Department of Commerce in terms of investment, foreign investment here and U.S. investment overseas, and I would be glad to supply those for the record.

Mr. **Bryant**. Yes, great. Well, not for the record necessarily. I am just interested in them myself. I don't want to burden the record.

Mr. **Yochelson**. Sure, I would be glad to furnish them.

Mr. **Bergsten**. I would just add that you should underline the direct relationship between your question and the trade problems we have been talking about because, when the United States runs a trade deficit of $100 billion, the foreigners have to be exporting $100 billion of capital to the United States. That's the way you balance the books. So they are going to buy something, whether it is farmland or CD's with banks or Treasury bills. That's the only way the books can balance. If you were somehow to limit that foreign access to American assets, then your effect would be to weaken the dollar in the exchange markets and improve our trade and competitive position, which might not be such a bad idea.

Mr. **Bryant**. It sounds pretty good. I hadn't thought about that. That is very interesting.

Mr. **Yochelson**. With your permission, Mr. Bryant, I would like to add this is a field in which Fred Bergsten has few peers. I would, however, like to point out that there is also the factor that the United States has been disinvesting. It is not just that foreigners have been sending their capital over to our country. It is that we have traditionally been an exporter of capital and that we have been covering part of this trade deficit simply by having U.S. companies and individuals not exporting the same amount of capital that they used to before. So there are two sides to this.

Mr. **Bryant**. Well, I am just concerned about the extent to which our trade policies as well our nonnecessarily trade policies—like the way in which we finance their military needs—seems to leave us in a position of doing everything for them and allowing them to do almost anything here yet we cannot do that in their country. You can't go to Japan and buy a ranch. I don't think you can do it in Mexico. You can't even go to Saudi Arabia as a tourist without a great deal of aggravation. So I am concerned about that and that's perhaps not directly relevant to this hearing.

Mr. **Bergsten**. No; it is directly relevant and again I would make the point that, if Japan and other countries liberalize so more American capital could go there, that would have the effect of strengthening their currencies, bringing the dollar down and helping improve our competitive position. So it has a very direct relationship to the trade issues that we are talking about.

Mr. **Bryant**. Thank you.

Mr. **Wirth**. Gentlemen, we thank you very much for your great help and we will look forward to working with you as we try to thread our way through this set of extremely important, interesting and difficult issues.

Thank you for being with us and we appreciate it.

Our third panel this afternoon is Mr. William G. Moore, chairman of the board of American Electronics Association, who is also president of Recognition Equipment; Mr. Eric Garfinkel with Anderson, Hibey, Nauheim & Blair, representing the Communications Industry Association of Japan; and formerly a trade adviser in the Reagan White House. And third, Mr. Allen Frischkorn, chairman of International Trade Committee of the Information and Telecommunications Group of the Electronic Industries Association, and also with GTE, here in Washington.

Gentlemen, we thank you very much for being here. We understand that Mr. Moore, in particular, is under a press of time, and we would ask you to go first, and please feel free to exit and meet your schedule as you must.

I think you are all familiar with the rules of the subcommittee, in which again I would note that we would ask you to summarize your testimony. It will be included in full in the record. We will leave the record open for questions of the staff and members of the subcommittee to you, and we would look forward as we work through this process to working with you all.

Thank you all for being here. Mr. Moore.

STATEMENTS OF WILLIAM G. MOORE, JR., CHAIRMAN, BOARD OF DIRECTORS, AMERICAN ELECTRONICS ASSOCIATION; ERIC I. GARFINKEL, ON BEHALF OF COMMUNICATIONS INDUSTRY ASSOCIATION OF JAPAN; AND ALLEN R. FRISCHKORN, JR., CHAIRMAN, INTERNATIONAL TRADE COMMITTEE, INFORMATION AND TELECOMMUNICATIONS TECHNOLOGIES GROUP, ELECTRONIC INDUSTRIES ASSOCIATION

Mr. MOORE. Thank you, Mr. Chairman.

I would like to first of all describe the two hats that I wear today, and then I would like to describe, if I could quickly, three or four trends which I believe are relevant to this discussion, and then I will close my remarks.

Regarding the two helmets I wear: First, I come to you from the trenches representing first of all the American Electronics Association. We have 2,800 member companies. We represent about two-thirds of all the dollar revenue of the electronics industry in the United States. The unique thing, I think, about the association is that the participants in the association are the chief executives and chief operating officers of the member companies. We meet quarterly as directors, and I have just come from a 54-director meeting of our group. I also move around the country and meet with our local councils and chapters. So I am talking on a regular basis with the people who run the companies in our businesses.

Approximately 300 of our 2,800 companies are directly involved in telecommunications. The second hat that I wear is as the chief executive officer of a $150 million New York Stock Exchange company. We have a wholly owned Japanese subsidiary which we have had for 13 years. Last year we sold in Japan approximately $5 million worth of equipment, including equipment to NTT, so I have some experience as the direct operating officer with that phenomenon.

The four trends that I would like to cite for you, point up why telecommunications is so important, and why I think this committee is so key to a major trend that is developing in our business. At the risk of belaboring the obvious, let me tell you what has been happening in our business in the 1960's, 1970's, and now in the 1980's.

In the 1960's, there was the arrival of relatively low-cost computing which allowed us at that time, to use a simple analogy, basically to put a computer in every company of any reasonable size.

So the decade of the 1960's involved putting computers in every company.

In the 1970's, we achieved yet further cost performance advantages in computing. Labor rates were going up, and we had a decade in the 1970's that we called in our industry "distributive data processing." What that meant effectively was not only could we have a computer in every company, but now we could have a computer in every location of every company.

So we saw a distributive process in place.

In the 1980's, what we are seeing is the era of the computer on every desk. That will be the trend as we move through the end of this decade and through the end of the century.

Now, again, it is oversimplistic, but it is important from a telecommunications approach to understand that the value of the computer on every desk is directly proportional to the ability of those computers to talk to one another; just as the value of the telephone was enhanced once we quit stringing wires and were able to interconnect telephones to literally millions of telephones around the world.

The same holds true of the communications industry. This will arguably be the largest single industry as we go forward and exit this decade. That is why everybody is planting their stakes in the ground right now. That is why the American Electronics Association and our member companies are so concerned about some other trends we see.

The second trend is the Japanese imbalance of trade in electronics. And as you know, for a number of years now, we have had a negative balance of trade with Japan in electronics which was primarily consumer electronics driven. If I take you back to 1980, that trade balance negative was $3.9 billion. In 1981, it moved to $6 billion. It sort of flattened off in 1982 at $6.6 billion. And then in 1983, we started in free fall. We went to $9 billion. In 1984 we went to $15.5 billion. And we at the AEA, are estimating that it will be in excess of $20 billion negative in electronics trade in the current year.

Up until 1983, we were seeing it primarily in adding machines, calculators, VCR's and so forth. In 1983, $5 billion of our $9 billion deficit was industrial electronics. That means telecommunications, computers minicomputers, and so forth.

In 1984, fully $9.5 billion of the total $15.5 billion was again in industrial electronics.

That is a very, very bad trend. And we might also point out that it means jobs. Our data shows us that every $1 billion shortfall or deficit in our business in high technology costs us about 11,000 high tech jobs.

Another thing that has bothered us—and it was commented on here by people much more competent than myself—is the high dollar. I won't belabor it other than to repeat what the Economist's magazine earlier this month printed. It said, "Only comic book currencies go up forever."

We have been waiting for a break in the dollar for almost 3 years now, and I think all you have to do is pick up the financial press or Wall Street Journal in the morning now to know that the companies in our business, the electronics business, are taking quite a beating in earnings vis-a-vis this time last year. And almost every company, almost as if it were a prerequisite tagline, talks about the strength of the dollar, and some companies like the IBM Corp., will actually translate their results on an as-if basis, had the dollar been at its same level last year. So it is a serious problem.

The last trend I think that I would like to discuss with you has to do again with our trade negotiations with our Japanese trading partners. The analogy that I would like to use here is the analogy of the tennis player who was in a three-set match. He lost the first set 6-0, and in the second set found himself down two games to love. He's got to do something different. He's got to come off the baseline and he's got to quit his rallying. He's got to get aggressive and come to the net.

We believe that there is a serious problem of aggressiveness in the United States vis-a-vis our Japanese trading partners, especially in the telecommunications area. We are supporting various committees in Congress and various members of the Cabinet who suggest specific remedies that might be used to essentially get us off the baseline, get us to the net, and change the momentum in our trade relationships with Japan.

Thank you, Mr. Chairman.

[Testimony resumes on p. 88.]

[The prepared statement of Mr. Moore follows:]

Statement of William G. Moore, Jr.
President and Chief Executive Officer
Recognition Equipment Inc.

and

Chairman of the Board of Directors
American Electronics Association

March 27, 1985

Mr. Chairman, my name is William Moore and my company Recognition Equipment Inc., with headquarters in Irving, Texas, is a worldwide supplier of optical recognition equipment. I am representing today the American Electronics Association which I serve as Chairman of AEA's Board of Directors. As you are probably aware, AEA counts over 2700 high technology companies in its membership. More important to the subject of these hearings, approximately 300 AEA members are directly involved in manufacturing and selling telecommunications equipment, together supplying almost 90% of the domestic U.S. telecommunications market and actively seeking international markets for their products.

Mr. Chairman, I want to thank you for the opportunity to testify today on what I believe is one of the most challenging international trade problems facing this country.

In AEA's view, the international telecommunications market affords one of the greatest potential opportunities for U.S. companies in the global marketplace. In 1984, the world market for telecommunications equipment alone was approximately $55.5 billion. U.S. companies are world leaders in the technological advances that are driving the demand for these products and we have every reason to expect that if market forces are allowed to operate, U.S. companies will obtain a substantial share of growth in sales opportunities.

It would be a mistake to view the telecommunications industry in narrow sectoral terms. Telecommunications are central to a growing array of information industries from broadcasting to financial services. By promoting competition in telecommunications, we stimulate innovation and the development of entirely new products and services in our information-oriented economy.

It was this perception of the role of competition in stimulating telecommunications - dependent industries that helped shape the national political consensus behind telecommunications deregulation in the United States. The objectives of that policy have been fully met in the U.S. market -- not simply in theory but in fact: the U.S. market is fully open to foreign and domestic competition, our tariffs are low, nontariff barriers are virtually nonexistent and federal regulation through certification and standards setting is kept to the minimum necessary to protect the network.

As AEA companies pursue the opportunities created by deregulation, we and other parts of the business community have become increasingly sensitive to the risks inherent in this situation. The problem stems from the fact that while the U.S. has opened its market to worldwide competition, most foreign markets where there is a domestic production base are virtually closed to U.S. exports. Indeed, we have watched a $1 billion surplus in communications equipment in 1980 erode to the point where in 1984, the U.S. had a deficit in this trade of $640 million.

The challenge facing U.S. trade policy is quite simply how to bring telecommunications trade into the multilateral trading system to ensure open international procurement (both governmental and private) on a fair competitive basis without restrictive trade and investment barriers. The potential consequences of failing to meet this challenge are becoming increasingly apparent. The imbalance in competitive opportunities in international telecommunicatons trade has raised serious questions by many about the basis for the U.S. commitment to an open international trading system. AEA has been and is committed to free trade. However, because of a lack of market access, we are undergoing a fundamental reassessment of this position.

Developments In Japan

The most immediate problem concerns Japan. Japan is the second largest market in the world and, unlike the countries of the European Community, has committed itself to an open market in telecommunications. The U.S. negotiated for this commitment in the trade talks that concluded in the late 1970's and early 1980's. As an example of this commitment, which our industry takes very seriously, Dr. Okita, the then Government Representative for External Economic Relations, wrote to the United States Trade Representative in December 1980:

> It is the policy of the Government of Japan to provide nondiscriminatory and competitive opportunities in its procurement operations and to guide Government-affiliated agencies such as the Nippon Telegraph and Telephone Public Corporation (NTT) to do likewise. It is our objective to achieve an open, transparent telecommunications market.

Japan's commitments are also specifically set out in the NTT agreement endorsed by Japan and the United States in 1981 and then extended for three years in 1984. This agreement was reached because the U.S., under the procurement code negotiated in the Tokyo Round, opened much of its government procurement market to Japanese companies while Japan's commitments were significantly less. Accordingly, the NTT Agreement was designed to achieve a fair balance.

We particularly value and welcome Japan's commitment for an open telecommunications market because so many other countries have refused to negotiate in this sector. We believe that frew and open trade contributes to growth in this area, and to a dynamism that protectionism stifles. We believe that as Japan opens its market, its economy and consumers will benefit.

From the first, our industry recognized that Japan could not instantaneously fulfill this commitment, but we have expected continued and determined efforts to do so. In fact, NTT's procurement of U.S. products rose from only $15 million in 1981 to $140 million in 1983, but then stagnated in 1984. For a telecommunications company the size of NTT, which procured over $3 billion in products in 1984, this level is clearly less than adequate, particularly given the fact that U.S. products are highly competitive. Equally important, NTT's purchases have not been infrastructure items, such as transmission equipment or switching systems, that would generate continued business in the future. While this progress has been insufficient, particularly given the growth of Japanese companies' share in our market, we felt that the top leadership in NTT was sincerely trying to open Japan's market.

For the whole Japanese market -- both NTT and non-NTT procurement -- foreign access is, and has been, far less than we believe it should be. For example, in 1984 imports accounted for a mere 1.8 per cent of Japan's apparent domestic consumption in telecommunications equipment. This is about half the same ratio for France, a country that has not committed to open its national procurement monopoly to foreign competition.

Since Japanese products are no more competitive in the telecommunications area as a whole than are U.S. products, it is reasonable to assume that our import penetration level would be at least as high as theirs if their market were fully open. In such an event, a very conservative estimate is that Japanese imports of American equipment would have been more than $410 million higher in 1984 than they actually were. Moreover, with the anticipated explosion in telecommunications technology this market could triple by the end of the decade.

An indication of the frustration felt by U.S. telecommunications exporters is apparent in the results of a survey conducted by the U.S. International Trade Commission. The ITC noted that U.S. producers reported 53 barriers in the Japan market, compared to only 16 for France and 15 for West Germany. Obviously, such figures are somewhat subjective, since we have no way of knowing which complaints are valid. Nonetheless, the fact that there were more than three times as many complaints about Japan as countries that have not committed to an open market is significant.

Access to the Japanese market is also critically important because Japanese companies represent the greatest competitive threat in the open U.S. market. U.S. imports of communications products from Japan rose from $602 million in 1980 to over $2 billion in 1984. In 1984, imports from Japan accounted for 49.5 per cent of total U.S. imports of communications products. We need to be afforded market access so we can engage Japanese producers on their home turf.

In the past, Japanese producers have used a protected home market to aggressively penetrate overseas markets through heavy price discounting which would not have been possible if they also had to compete at home. Accordingly, access to Japan's market will make U.S. telecommunications products even more competitive in all other markets including the United States market. Allowing Japanese producers to compete freely in our market while we can not sell there is to tie one hand behind our backs.

JAPANESE MARKET RESTRUCTURING

As this Committee knows, Japan has been in the process of restructuring its market. Three laws passed the Diet in December of 1984, which provided for the privatization of NTT and the future structure of the Japanese market. By itself, this restructuring is not necessarily related to market access or to Japanese commitments to an open market. Rather, this restructuring is something that the Japanese are doing for their own reasons, and principally to increase market dynamism so as to be preeminent in the emerging "information society."

However, if conducted correctly, restructuring presents an opportunity for Japan to fulfill its five-year old committment to an open market. If done incorrectly, it also presents an opportunity for those in Japan who advocate a closed market to undermine the limited progress that has been made over the last five years.

Although Japan's recently passed laws are scheduled to go into effect on April 1, just five days from now, the U.S. industry still does not know how the laws will be implemented. In spite of the fact that American negotiators as early as January 1984 have repeatedly asked for copies of proposed administrative procedures, only starting on February 28, 1985, have they been given Japanese language drafts. The Japanese have only recently made Cabinet-level ordinances available, and there will be two more levels upon which the proposed regulations will have to be promulgated before the implementation process is complete.

While it is still too early to understand in detail the Japanese posture, the latest MPT response to the U.S. Government list of issues to be resolved indicates that a significant number of problems may still exist. For example, the Japanese standard for terminal equipment requires far more than "harm to the network." With regard to value added networks, the requirement for registration - and even prior notification - provides the opportunity for potential abuse. Additionally we have no real assurances on cross subsidization.

I know Mr. Chairman, that you appreciate the importance which we attach to tangible results in these discussions. AEA believes it is critical that strong U.S. Government pressure be maintained on the Japanese. It is particularly important that recent Japanese proposals in the telecommunications area not be categorized as successfully meeting U.S. requests for full market access since U.S. exporters will not yet have comparable access to that which we accord Japanese exporters.

EUROPEAN TELECOMMUNICATIONS MARKETS

Japan is not, however, the only closed telecommunications market in the world, and in the long run, may not prove to be the most intractable. Most European countries have yet to adopt as a national goal the ideal of open competition for telecommunications products and value-added services. As a group, the member states of the European Community represent the third largest telecommunications market in the world.

There have been some recent indications that the situation in the European Community is slowly changing, but overall access remains severely limited, and the changes which are occurring will have only a minimal impact on U.S. companies' access to European Community telecommunications markets. I will briefly highlight several areas of recent change:

-The United Kingdom has gradually liberalized access in all areas of its market. The process of getting approvals to sell into the interconnect or customer premise equipment market has been simplified and the time for approval significantly reduced. British Telecom has been privatized, though its procurement policies are still oriented mainly towards dealing with its established supplying firms.

-The Federal Republic of Germany has long been a difficult market to crack. The Bundespost, however, since 1979 has been moving away from its dependence solely on Siemens for network equipment. Restrictions on the interconnect market are also loosening somewhat. Services remain a problem, with Germany opposing more liberalization, in fact even suggesting greater application of restrictions.

-The French market for network equipment is closed, though for the interconnect market there has been some liberalization. Services are strictly controlled by the national authorities.

-The European Commission has been taking an increasingly active role in seeking to shape policy for the telecommunications equipment market in Europe. Last year it tabled a six point plan to the member states which basically calls for a partial opening of the network equipment market, harmonization of standards, and simplifying type approvals. The Commission wants to break down the intra-EC barriers to telecommunications equipment trade. It appears likely that the Community would stop there -- seeking to maintain preferences for EC equipment suppliers within the EC market.

CONGRESSIONAL ACTION

These developments reinforce the need to regard access to foreign telecommunications markets as a multilateral problem and to consider how best to engage our trading partners in a broad range negotiation aimed at the reciprocal opening of markets in telecommunications and other information related products and services. For its part, the United States will have to consider very carefully what concessions it is prepared to place on the table as incentives to encourage other countries to recognize their national interest in open trade in this sector. To be sure, the drive to deregulate telecommunications in foreign countries must come from within as domestic interests see its obvious importance to their future economic growth. But just as trade serves to promote the exchange of values, not simply products and services, so too trade negotiations can serve as a catalyst to domestic political consensus building.

The importance of these market access initiatives requires that the United States adopt a proactive policy. Indeed, there is a growing consensus in the business community regarding the need for Congressional action to concentrate the efforts of the U.S. Government on specific objectives and focus the trade tools available to the Administration on the particular problems that need to be addressed.

AEA is prepared to support a legislative initiative that is focused on market access and designed to enhance the Administration's determination and effectiveness in confronting this issue. Legislation along these lines would help to convince our trading partners of the seriousness of our resolve and our willingness to meet them half way with appropriate concessions of our own. Such legislation should also send a strong message to countries like Japan which have committed to opening their markets but have failed to adequately live up to that commitment. The substance of our message should be that unless they honor their commitments, we are fully prepared to exercise our rights to restrict their access to our market in order to restore the balance of concessions.

Mr. **Wirth.** What is your time, Mr. Moore?

Mr. **Moore.** I think I'm OK until about a quarter of 5.

Mr. **Wirth.** Because I would like to come back, if I might, and talk about item No. 4—you know, what steps do we take coming off the baseline. Is that OK?

Mr. **Moore.** Yes, sir.

Mr. **Wirth.** Mr. Garfinkel.

STATEMENT OF ERIC I. GARFINKEL

Mr. **Garfinkel.** Thank you, Mr. Chairman.

CIA-J, which is the leading organization of communications equipment and manufacture in Japan appreciates the opportunity to present its views today.

Let me state at the outset that the Japanese telecommunications industry has been the leading advocate of a fully open, transparent and nondiscriminatory communications equipment market in Japan. CIA-J has long recognized that trade between the United States and Japan must be a two-way street, or protectionist pressures will build in the United States, and Japan's access to the American market will be curtailed.

I believe Japan's very ability to sell here in the United States will be dependent ultimately upon an open Japanese market. At the end of the day, there will be no free lunch.

For this reason CIA-J has been vigorously urging the government in Japan, specifically the Ministry of Posts and Telecommunications, to promulgate standards and approval procedures for the Japanese market which are transparent, nondiscriminatory, objective in nature, and consistent with international norms.

As a result of the efforts of the United States and Japanese negotiators in recent weeks, there are now indications that progress has been made in the standards and approvals area, but much work must be done in this area between now and April 1, which is, I might add, approaching rapidly. These steps will help ensure an open and nondiscriminatory telecommunications market in Japan.

They will not, however, guarantee increased U.S. telecommunications exports. Realistically, increases in United States exports to Japan will come slowly. The Japanese way of doing business in the telecommunications area is undergoing fundamental change.

Until 1981, when the original NTT agreement became effective, the Japanese telecommunications market was closed to foreign suppliers. Initially, U.S. sales to NTT fell well below expectations.

In 1983, following discussions between the two sides, changes were made in NTT's implementation of the agreement, and in that year NTT sales total $140 million; a threefold increase over 1982. In 1984, U.S. sales again reached approximately $140 million.

In order for NTT's procurement levels to increase, there is no question that NTT must maintain an environment conducive to U.S. sales, and at the same time American firms must persevere and be aggressive in their sales activities.

If the NTT agreement brought about the first major change in Japan's telecommunications market, the second revolution will occur on April 1 when the privatization of NTT and the deregulation of Japan's market becomes effective. These changes should provide United States equipment producers and service companies with new opportunities in the Japanese market in the years ahead.

Deregulation will result in the establishment of new common carriers and service companies which will be sensitive to quality, technology and cost, and they will look to foreign sources of equipment to remain competitive.

Deregulation of the Japanese market, therefore, has the potential to mirror the deregulation of the United States market in terms of opportunities created for foreign sources of supply.

And despite these changes and potential opportunities for United States firms, it is my view that a dramatic reversal of the United States deficit with Japan in telecommunications is unlikely.

First, the United States telecommunications market is the most dynamic in the world, and it is also four times the size of Japan's market. On the basis of the market size differential alone, one can expect Japan's sales to the United States to exceed the volume of United States sales to Japan.

Second, as I indicated earlier, until 1981, Japan's market was, for all practical purposes, closed. Certain ways of doing business in the telecommunications area in that closed environment, which have existed for decades are being changed, but unfortunately that change has and will continue to take time.

An additional factor which cannot be ignored is the relative commitment to exporting made by manufacturers in Japan and the United States. While I cannot speak for the efforts of United States firms, I do know by their own account it has taken Japanese manufacturers almost 20 years to achieve success in the United States market.

During that period, Japanese telecommunications manufacturers prepared specs and designs so as to satisfy the requirements of United States customers and manufactured them to meet the needs of United States customers. And many Japanese companies have established manufacturing facilities here in the United States in order to service their customers and develop long-term supply relationships.

It is believed by many in Japan that if a similar commitment were made to meeting the needs of Japanese customers by United States firms, there would be an in improvement in United States sales performance in Japan.

The Japanese telecommunications equipment industry is committed to an open and nondiscriminatory Japanese market. Toward this end, CIA-J will continue to urge the Ministry of Posts and Telecommunications to adopt standards and approval systems which provide equal opportunities for United States and Japanese firms.

The industry in Japan has also sought increased cooperation with United States manufacturers as a means of resolving trade frictions in the telecommunications area, and has now opened its membership to United States firms.

It is my understanding that IBM and Motorola are currently among the active members of CIA-J. The USTSA is also a member of CIA-J, and these two associations have recently agreed to work together on trade issues and to exchange information on technical standards to enhance bilateral trade opportunities.

While a reversal of the United States bilateral trade deficit in telecommunications will not occur immediately, progress in enhancing United States access to Japan's market has been made and will continue to be made in the months ahead. United States access to Japan's market has come a long way since 1981, and continued progress can be made through bilateral discussions directed toward resolving the outstanding issues and, most importantly, creating an environment in which United States firms are confident that they can compete successfully in Japan's market, and will make the necessary investment and commitment to compete there.

Thank you very much.

[The prepared statement of Mr. Garfinkel follows:]

Testimony
Of
Eric I. Garfinkel
On Behalf Of
Communications Industry Association Of Japan
Before The House Subcommittee On
Telecommunications, Consumer Protection And Finance

Mr. Chairman and Members of the Committee:

My testimony is presented on behalf of the Communications Industry Association of Japan (CIA-J). CIA-J is the leading organization of communications equipment manufacturers in Japan, and is comprised of more than 200 corporations which manufacture a full range of communications equipment for the Japanese market and for export to world markets. CIA-J appreciates the opportunity to present its views on U.S.-Japan trade in telecommunications equipment to the Subcommittee.

Let me state at the outset that CIA-J has been a leading advocate of a fully open, transparent and non-discriminatory communications equipment market in Japan. CIA-J has long recognized that trade between the U.S. and Japan must be a "two-way street", or protectionist pressures will build in the United States and Japan's access to the American market will be curtailed. For this reason CIA-J has been vigorously urging the Ministry of Posts and Telecommunications (MPT) to promulgate standards and approval procedures for the Japanese market which are transparent, non-discriminatory, objective in nature, and consistent with international norms.

As a result of the efforts of U.S. and Japanese negotiators in recent weeks, there are now indications that progress has been made in the standards and approvals area. It is our understanding that many of the outstanding issues, including U.S. requests for a single and independent approvals institute, type approval for terminal equipment, measures to prevent cross-subsidization by NTT, and opportunity to comment in advance on proposed procedures, standards and certification systems are being resolved to U.S. satisfaction.

While other issues still must be resolved, these steps will help ensure an open and non-discriminatory telecommunications market in Japan.

Realistically, increases in U.S. telecommunications exports to Japan will come slowly. The Japanese way of doing business in the telecommunications area is undergoing fundamental change. Until 1981, when the original NTT agreement became effective, the Japanese telecommunications equipment market was closed to foreign suppliers. Initially, U.S. sales to NTT fell well below expectations, as U.S. sales to NTT in 1981 and 1982 amounted to $15.2 million and $40 million respectively. In 1983, following extensive discussions between U.S. and NTT officials, changes were made in NTT's implementation of the Agreement. In that year, NTT sales totaled $140 million -- a three fold increase over 1982. In 1984, U.S. sales to NTT again reached approximately $140 million.

Although 1984 levels did not increase over 1983 levels, NTT's procurement from the U.S. in 1983 was dominated by a few large purchases such as a Cray Computer, whereas in 1984, NTT significantly broadened its procurement base from the U.S., purchasing a wide range of sophisticated equipment items such as -- a new telegraph system, a transportable digital switch, and the AT&T ATOMICS system. In order for NTT procurement levels to increase NTT must maintain an environment conducive to U.S. sales, and American firms must be aggressive in their sales activities.

If the NTT Agreement brought about the first revolution of Japan's telecommunications market, the second revolution will occur next Monday, April 1, when the privatization of NTT and the deregulation of Japan's telecommunications market becomes effective. These changes should provide U.S. equipment producers and service companies with new opportunities in the Japanese market in the years ahead. Deregulation will result in the establishment of new common carriers and service companies which will be sensitive to quality, technology and cost, and will look to foreign sources of equipment to remain competitive. Deregulation of the Japanese market, therefore, has the potential to mirror the deregulation of the U.S. market in terms of the opportunities created for foreign sources of supply.

Despite these changes and the potential opportunities for U.S. firms, a dramatic reversal of the U.S. deficit with Japan in telecommunications trade is unlikely. First, the U.S. telecommunications market is the most dynamic in the world. It is also four times the size of Japan's telecommunications market. On the basis of the market size differential alone one can expect Japan's sales to the U.S. to exceed the volume of U.S. sales to Japan. Second, as I indicated earlier, until 1981 Japan's telecommunication's market was, for all practical purposes, closed to imports. Certain ways of doing business in the telecommunications area in that closed environment, which have existed for decades, are being changed -- but that change will take time.

An additional factor which cannot be ignored is the relative commitment to exporting made by manufacturers in Japan and the United States. While I cannot speak for the efforts of U.S. firms, I do know that by their own account it has taken Japanese manufacturers almost 20 years to achieve success in the U.S. telecommunications equipment market. During that period, Japanese manufacturers prepared specifications and designs so as to satisfy the requirements of U.S. customers, and manufactured them to meet the needs of U.S. customers. Moreover, many Japanese companies have established manufacturing facilities in the United States in order to service their customers and develop long-term supplier relationships. It is believed by many in Japan that, if a similar commitment to meeting the needs of Japanese customers were made by U.S. firms, there would be an improvement in U.S. sales performance in Japan in the telecommunications area.

CIA-J is committed to an open and non-discriminatory Japanese telecommunications market. Toward this end, CIA-J will continue to urge MPT to adopt standards and approval systems which provide equal opportunities for U.S. and Japanese firms. CIA-J has also sought increased cooperation with U.S. manufacturers as a means of resolving trade frictions in the telecommunications area and has opened its membership to U.S. manufacturers. It is my understanding that IBM and Motorola are currently active members of CIA-J. The USTSA is also a member of CIA-J and these two Associations have agreed to work together on trade issues and to exchange information on technical standards to enhance bilateral trade opportunities.

While a reversal of the U.S. bilateral trade deficit in telecommunications will not occur immediately, progress in enhancing U.S. access to Japans market has been made, and will continue to be made in the months ahead. U.S. access to Japan's telecommunication's market has come a long way since 1981. Continued progress can be made through bilateral discussions directed toward resolving outstanding issues and creating an environment in which U.S. firms are confident that they can compete successfully in Japan's telecommunications market.

Mr. **Wirth**. Thank you.

Mr. Frischkorn.

STATEMENT OF ALLEN R. FRISCHKORN, JR.

Mr. **Frischkorn**. Thank you, Mr. Chairman. It is a pleasure to be here today to testify on behalf of EIA's Information and Telecommunications Technologies Group.

The ITG represents 100 U.S.-based manufacturers of telecommunications equipment including virtually every large U.S. manuacturer, GTE, ATT, ITT, Motorola, and many others.

Together our manufacturers make about 85 percent of all telecommunications equipment produced in the United States.

As suggested, Mr. Chairman, I will summarize my statement. Basically, when you look at the problem, it is one of market access. Our worldwide competitors, by and large, have access to the U.S. market. We do not have access to their markets for various reasons which I will get into in a moment.

Let me first state that the reason we don't have access to foreign markets is not because we don't have technologically competent products. In fact, last year during hearings held by the ITC at Senator Danforth's request, the ITC found that U.S. telecommunications manufacturers led the world technologically. In fact, the industry is increasing every year in terms of the total number of companies manufacturing telecommunications equipment.

On the other hand, we have an open market in telecommunications equipment. Mr. Chairman, as you indicated in your opening remarks, the reason for that was the FCC's deregulatory thrust in recent years and, of course, the consent decree settling the ATT antitrust suit.

You also stated in your opening remarks—and I don't need to repeat them all again, I think they have been repeated also by a number of the other witnesses here today—the trade statistics with respect to telecommunications trade. In the very important SIC Code 3661, the deficit is over a billion dollars. In total telecommunications trade, the deficit is over $600 million.

The source of the imbalance is not the fact that we can't compete in Third World countries, but it is mainly that we can't get access to the markets in the major developing countries of the world.

Our competitors are here and are competing vigorously. In my written statement there is a table, table No. 2, which indicates that the Bell operating companies each have at least one foreign supplier of PBX's for their needs today.

So it is clear that foreign competitors are, both by virtue of the trade statistics which are taking off this way—the witness indicates an imaginary line beginning at the floor and ending at the ceiling—and by virtue of the information that we now have available, doing very well in the U.S. market.

Then why are we having trouble competing? It doesn't take an economics expert to know that if your competitors are operating from a closed home market base and you are not, they are going to have certain economies of scale which give them an advantage over you.

Why don't we have access to their markets? Well, I think the reason is very clear—most foreign governments by virtue of government policy, keep their postal, telegraph and telecommunications monopolies closed to foreign products.

This is particularly true in the European countries.

What has the United States done about this over the years? Well, through the GATT structure we have tried to get these telecommunications entities opened. It was mentioned earlier today that several years ago, during the Tokyo round of trade negotiations, we tried to get the PTT's included under the Government procurement code. Our trading partners, with the exception of Japan and a few others that are not consequential, rejected that. I understand our negotiators now are reviewing the Government procurement code and are trying to get the PTT's included.

However, the one exception, as I indicated, was Japan. There we reached an agreement sometimes referred to as the NATT agreement, whereby NTT, the telecommunications monopoly in Japan, agreed to give U.S. companies national treatment for purposes of telecommunications procurement.

I am sure, Mr. Chairman, since you had hearings on that agreement just last year, you are well aware of the insubstantial progress, at least in the view of the U.S. industry that has been made under that agreement. Despite that fact, Japanese telecommunications exports are increasing exponentially into the United States. Again, I think you mentioned the figures earlier. our bilateral trade deficit in telecommunications equipment with Japan is now over $1.8 billion. And if you take a look at the entire electronics sector, not just the telecommunications sector, the deficit is a staggering $15.5 billion out of a total deficit of approximately $35 billion with Japan.

What is the problem in Japan? Well, I think Ambassador Strauss hit upon the core problem when he talked about the NTT bureacracy and the other bureacracies in Japan, including the ministries. There seems to be a lack of willingness on the part of the Japanese to open up their system to foreign products.

As you know, the U.S. Government is now in the process of negotiations with the Japanese called the market oriented sector specific negotiations, or MOSS negotiations, these negotiations sometimes referred to by the industry as "more of the same stuff" are sarcastically, of course. Those negotiations, according to recent newspaper reports, are not going well.

I have talked myself with the negotiators, and it does appear at this point that most of the major objectives that we had in those negotiations are not going to be accomplished, although one can't put aside the fact that perhaps at the last minute there will be some resolution of our differences.

But merely coming back with ordinances that enable United States companies to supposedly compete on an equal basis in Japan, in our view and the view of the industry, will not be enough. We believe that some type of positive program ought to be agreed to by the Japanese to encourage United States companies to get into that market.

Finally, I just want to say again, while I have been talking about Japan, it is not the only problem. Although Japan is probably the most salient example of a closed market that we have, we do have an agreement with them that supposedly will open that market up. Certainly we need to do something about our European allies and other countries around the world who are emulating the Japanese example.

I don't think there is any easy solution to the problem other than negotiations with those countries, pointing out to them that it is in their best interests as well as the best interests of a free world trade system for them to give U.S. manufacturers in telecommunications equipment reciprocal market opportunities.

The problem that we are presented with then, very briefly, is one where we lack access to our competitor's markets, they have access to this market, and in the long term that's going to rebound to the detriment of the telecommunications industry in this country, which is one of the more important industries for purposes of national security.

We are pleased that your subcommittee and the Congress is taking an increasingly hard look at this very difficult problem. It is essential that the U.S. Government formulate a coherent policy response to the industry's dilemma.

We look forward to working with you and other members in Congress to resolve this important trade issue.

[Testimony resumes on p. 110.]

[Mr. Frischkorn's prepared statement follows:]

STATEMENT OF
ALLEN R. FRISCHKORN, JR.
ON BEHALF OF THE
INFORMATION AND TELECOMMUNICATIONS TECHNOLOGIES GROUP
OF THE
ELECTRONIC INDUSTRIES ASSOCIATION

Mr. Chairman, I am Allen R. Frischkorn, Jr., Assistant Vice President, Government Relations, for GTE Corporation. I am appearing on behalf of the Information and Telecommunications Technologies Group (ITG) of the Electronic Industries Association; at present I am serving as the Chairman of the ITG's International Trade Committee. The ITG represents 100 U.S.-based manufacturers of telecommunications equipment who account for roughly 85 percent of U.S. production of telecommunications equipment. I am pleased to have this opportunity to appear before your Subcommittee today.

I am here representing an industry which is facing an unprecedented international competitive crisis. That fact is rather extraordinary when one recognizes that the U.S. telecommunications equipment industry's record of innovation and competitive dynamism has been the envy of our trading partners. Last year the International Trade Commission found that our industry was the world leader technologically. Capital expenditures by this industry have been heavy and have increased significantly in recent years. The number of companies in our industry increased from under 380 in 1978 to 550 in 1983. Reflecting our leadership in technology and competitiveness, we have always supported a policy of free trade and open markets.

As you know, at the beginning of 1984, the AT&T system was broken up through a judicial consent decree. This was the last of a long series of regulatory and judicial decisions which have progressively opened our telecommunications equipment market over the past several decades. Our market is now completely open to telecommunications equipment imports and investment. However, we are practically alone among the developed countries in having created an open market for telecommunications equipment -- the domestic markets of our major international competitors are, with a few exceptions, largely closed to U.S. exports.

The current balance of trade statistics reflect this imbalance in competitive opportunities. In 1984 we had a net deficit of $608 million in telecommunications equipment despite the competitiveness and technological achievements of our industry.[1/] If one looks at telecommunications equipment in the SIC 3661 category, which includes core network equipment such as switching and transmission equipment, the net deficit was $1.0 billion. While one might argue that this was due to the overvaluation of the dollar, it should be noted that we managed to export over $777 million in telecommunications equipment in the SIC 3661 category in 1984. This equipment was sold largely to developing countries with no indigenous industry of their own, in competition with suppliers based in Europe, Japan and other developed countries. If our industry was truly noncompetitive, because of the overvalued dollar or other factors, we would not have been able to achieve these sales in competition with our Japanese and European rivals.

The source of our trade imbalance lies with our trade with other developed or newly-industrialized countries. We imported over $1.8 billion in SIC Code 3661 telecommunications equipment from these countries in 1984, a figure which more than offset our

---

[1/] SIC Code 3661 and 3662.

TABLE 1

U.S. TELECOMMUNICATIONS TRADE, 1984

U.S. Trade With the World
($ Millions)

	SIC Code 3661	SIC Codes 3661 and 3662
Exports	$777	$3,545
Imports	1,817	4,153
Balance	(1,040)	(608)

U.S. Trade With Japan

	SIC Code 3661	SIC Codes 3661 and 3662
Exports	$27	$194
Imports	941	2,079
Balance	(914)	(1,885)

Source: Bureau of Census; National Telecommunications and Information Administration

$777 million in exports and threw us into a net deficit. While these countries constitute major markets for telecommunications equipment, they are largely closed to the procurement of foreign products, and we have little hope, at present, of significantly expanding our exports to them in the foreseeable future, no matter how competitive we may be in terms of price or innovation. At the same time, these countries are rapidly moving to exploit the AT&T divestiture and to expand their presence in the U.S. market.

One example of the latter phenomenon is illustrated in Table 2, which depicts PBX sourcing by former Bell operating companies which are now marketing customer premises equipment. Each company is reportedly marketing three lines of PBXs, and in most cases at least one of these lines is a foreign-made PBX. In the case of one former operating company, Ameritech, all three PBX lines are foreign made, and in two other instances, two of the three lines are foreign made. These marketing arrangements ultimately mean lost sales volume and lost revenue for U.S. equipment manufacturers.

In a free market businessmen and policymakers could shrug off such lost sales as simply a reflection of competition and the normal operation of the market. In this case, however, U.S. equipment manufacturers do not have the opportunity, to any significant degree, to compensate for sales lost at home with expanded exports. We do not enjoy the same opportunities in foreign markets that foreign suppliers have been given here.

TABLE 2

PBX SUPPLIERS TO THE BELL OPERATING COMPANIES

Former Regional Bell Operating Company	Division Selling PBXs	PBX Manufacturer	PBX
Ameritech	Ameritech Communications	TIE/Comm.(F)	Data Star
		Ericsson (F)	Prodigy
		NEE (F)	NEAX 2400
Bell Atlantic	Bell Atlanticom Systems	TIE/Comm.(F)	Data Star
		NEC (F)	NEAX 2400
		Intecom	IBX
Bell South	Bell South Services	American Tel.	Focus
		ITT	3100L
		Northern Tel.	SL-1, 100
		Intecom	IBX
NYNEX	Business Information Systems	TIE/Comm.(F)	Data Star
		GTE	Omni
		Intecom	IBX
Pacific Telesis Group	Pac Tel. Communications Systems	TIE/Comm.	Data Star
		American Tel.(F)	Focus
		Northern Tel.	SL-1
Southwestern Bell Corporation	Southwestern Bell Telecommunications	American Tel.(F)	Focus
		Northern Tel.	SL-1, 100
		Intecom	IBX
US West	Firstel Information Systems	TIE/Comm.(F)	Data Star
		NEC (F)	NEAX 2400
		Ztel	PNX

(F) - Foreign-made PBX

Source: Communications Week, April 9, 1984.

Foreign Market Barriers

In most industrialized countries outside the United States, the market for telecommunications equipment consists largely of procurement by state monopolies which operate the national telephone, telegraph, and data transmission systems, the so-called PTTs. The PTTs are particularly dominant in the market for the complex switching and transmission equipment products in which our own firms are most competitive. In a number of countries there is no market for such products except the PTTs.

Virtually every PTT pursues a "buy national" policy, procuring equipment exclusively from domestic suppliers except for the products which those suppliers do not make. In some countries, such as France, preferential procurement practices have been explicitly viewed as tools of national industrial policy -- such procurement has made possible the development of an indigenous telecommunications industry. The French PTT Minister said in 1983 that

> About 10 years ago we French realized that the PTT was becoming one of the linchpins of the French electronics industry through government purchasing and use of the telecommunications network. . . A French telephone industry has been gradually built with a policy of government purchasing. This industry has now acquired international standing....3/

Nations with protected markets have thus come to recognize that protection is not merely a defensive policy measure, but ultimately an important advantage in penetrating export markets.

3/ L'Usine Nouvelle, June 16, 1983.

The United States has been a leading proponent of open world markets since the end of World War II. Under U.S. leadership, most of the world's nations have entered into the General Agreement on Tariffs and Trade (GATT), a multilateral agreement providing for the progressive reduction of trade barriers through the reciprocal reduction of tariffs and the elimination of non-tariff barriers. Government procurement was not covered under the original GATT agreement, however, so our foreign trading partners took the position that the GATT agreement did not obligate them to end their policy of closed procurement by the PTTs.

In 1979, a new multilateral agreement was concluded with respect to government procurement, providing for the opening up of procurement by government agencies of foreign products on a non-discriminatory basis, the so-called Procurement Code. However, virtually all of our trading partners specifically excluded their PTTs from the coverage of the Code. They still take the position that they are under no obligation to open their procurement of telecommunications equipment despite the fact that we have opened ours.

Japan presented a special case. As in other foreign countries, Japanese telecommunications equipment procurement was traditionally dominated by a government telecommunications monopoly, Nippon Telephone & Telegraph (NTT). NTT practiced the same "buy national" policies as the PTTs in other nations. However, while the Procurement Code was being negotiated, the U.S. government pressed the Japanese government for a commitment to open its telecommunications equipment market to foreign sales -- recognizing that procurement of such equipment was by far the most significant purchasing, from the perspective of potential U.S. exports, of any Japanese government agency. After a long period of negotiations, the Japanese government agreed to open its procurement of telecommunications equipment to foreign suppliers on a non-discriminatory basis.

Japan was thus the only country in the world to commit itself by formal agreement to a policy of open procurement in telecommunications equipment. However, as a practical matter, this commitment produced only a marginal increase in U.S. equipment sales. In 1984, the U.S. exported $27 million worth of telecommunications equipment in the SIC 3661 category to Japan, representing only a tiny fraction of Japanese consumption. In product areas where U.S. companies are clearly superior, such as switching equipment, U.S. sales have been virtually nil. Moreover, U.S. exports to Japan have virtually stopped growing, showing almost no year-over-year improvement between 1983 and 1984.

At the same time, Japanese telecommunications equipment exports to the U.S. are growing phenomenally -- in 1984 they reached $941 million in the SIC 3661 category. If SIC-3662 imports are included, imports from Japan were over $2 billion, giving us a bilateral deficit of $1.8 billion. Japanese products accounted for nearly 50 percent of total U.S. imports of telecommunications equipment.

The continued resistance of the Japanese market to imports is a complex phenomenon. NTT's "buy national" practices have been widely criticized even in Japan. NTT has taken certain measures designed to facilitate procurement of foreign equipment, such as the publication of bid specifications in English and the holding of seminars in the U.S. on NTT bidding procedures. However, sales of U.S. equipment to NTT have not increased significantly. The principal problem appears to be continued resistance by the NTT bureaucracy -- the individuals who must actually make procurement decisions -- to the acquisition of foreign products. Many of these individuals enjoy close ties with the leading Japanese equipment suppliers. NTT officials enjoy substantial discretion in making purchasing decisions, and appear to be using that discretion to favor Japanese equipment. MITI Minister Shintaro Abe said in 1982 that

> [T]here are still elements within NTT that oppose importing American equipment.[4]

The U.S. government has continued to press Japan on this issue, but with little apparent effect.

At present the Japanese telecommunications market is undergoing a restructuring. The Diet has enacted a law authorizing other entities to operate some forms of telecommunications service in competition with NTT, and some of NTT's stock -- now held by the government -- will be transferred to private owners over the next several years. Pursuant to the restructuring, in 1984 the Japanese government began drafting new ordinances and regulations which would govern the certification and approval of foreign-made equipment after the restructuring. These draft regulations would not only place great discretion in the hands of Japanese bureaucrats to reject foreign equipment, but in some cases would place such authority in the hands of a body consisting in part of representatives of the Japanese equipment manufacturers -- raising the concern that the Japanese producers would have the ability to regulate access to their own market.

---

[4] Business Week, August 9, 1982, p. 42.

The U.S. government has been engaged in intensive negotiations with the Japanese government with respect to these issues for several months. The results, to date, have not been satisfactory. While the Japanese have made some concessions -- establishing certification procedures which, on their face, resemble U.S. procedures -- the new regulatory structure still threatens to operate as a barrier to U.S. products. Japanese officials will retain considerable discretionary power to disapprove U.S. products. Japanese standards for approval still far exceed those of the United States, which approves foreign equipment as long as it will not harm the network.

Given our past experience, as well as the Japanese position in the recent negotiations, we believe that regardless of the final form which their regulatory structure takes, U.S. exports to Japan will not increase significantly in the foreseeable future -- no matter how competitively priced or technically superior they may be. We feel that only an all-out "positive action" program by the government of Japan, with the objective of achieving a substantial increase of U.S. sales as a percent of Japanese consumption, can achieve such a result.

I have singled out Japan in my testimony because it is our largest competitor. However, other foreign governments have proven as resistant as Japan to the suggestion that they should open their markets to our products. As our European partners expand their exports to the U.S., the same competitive problem will be presented. In effect, we are seeing our market rapidly penetrated by exports while our own export prospects are, at best, for a painfully slow, inch-by-inch incremental increase in sales -- and even this will be achieved only with continued pressure from the U.S. government.

I recognize that this problem poses a dilemma for U.S. policymakers. But we must ultimately remember that it is a dilemma which results from U.S. policy decisions -- we chose to open our market unilaterally, without gaining any reciprocal concessions from our trading partners, and now, not surprisingly, they are capitalizing on our action. It is essential that the U.S. government formulate a coherent policy response. We are gratified that your Subcommittee is showing concern over this problem, and we look forward to working with the Congress in the search for solutions.

I would be happy to answer any questions that you or the other members of the Subcommittee may have.

Mr. Wirth. Thank you all very much, gentlemen.

First of all, let me quote, if I might, from Mr. Garfinkel and ask Mr. Moore and Mr. Frischkorn if they agree.

Mr. Garfinkel suggested that significant progress has been made in the United States-Japanese negotiations. At the same time he told us that realistically changes will come slowly. Assuming that those aren't mutually exclusive statements, Mr. Moore, would you agree that, one, significant progress has been made; second, the changes are going to come slowly?

Mr. Moore. No, Mr. Chairman. I'm down eight games to love again on the progress, and it has come slowly. The negotiations, to my best knowledge, have been in progress for about 13 years now, and we are facing not an issue of agreement on principle, but we are facing an issue of enforcement of agreed-upon steps to promote quick action. So I would disagree.

I might add that I have also got another 15 minutes, so I will be here until 5 o'clock.

Mr. Wirth. OK. We are going to get you off the baseline in just a minute.

Mr. Moore. All right, sir.

Mr. Wirth. Mr. Frischkorn.

Mr. Frischkorn. I would have to agree. I was involved in the original—

Mr. Wirth. With Mr. Moore or Mr. Garfinkel?

Mr. Frischkorn. With Mr. Moore.

I was involved in the original NTT negotiations back in 1979 and 1980, and at that time we were promised that we would have greater access to the Japanese market on the basis of the NTT agreement. And, as indicated earlier by Ambassador Strauss, despite the fact that at that time switching equipment was one of the major areas that U.S. companies had a technological edge in and were expected to succeed in selling, not one single item of digital electronic switching equipment has been sold to NTT.

I think that the NTT agreement gave the Japanese 4 additional years to rev up their capacity to crack our market, while at the same time not allowing us any substantial penetration in their market.

Mr. Wirth. Mr. Garfinkel, cannons to the right of you and cannons to the left of you.

I would like to give you the opportunity to respond.

Mr. Garfinkel. I have been talking in the last couple of days with the United States officials who have been negotiating with the Japanese in the approvals and standards area.

My understanding is that for the most part the United States is getting what it's asked for. There are still some outstanding issues. I don't think there's been agreement on vans. On the approvals institute there is agreement on the type approval issue, which was one of the hotter issues on our negotiating agenda, there is agreement.

There's been agreement on measures to prevent cross subsidization of NTT. There is agreement on an opportunity to comment on in advance on proposed procedures and standards. I am not going to suggest that these agreements are going to resolve the problem, but I think they go a long way toward removing whatever barriers might exist. Then I think a lot of work has got to be done both on the United States side and in Japan to make sure that the bureaucracies go ahead and implement these procedures.

Mr. **Wirth**. I must tell you, Mr. Garfinkel, from my perspective, if I heard that statement 3½ years ago, I would have nodded. I would have gone ahead in that vein. We did go ahead in that vein, and I would just, as you know—and maybe one of the most striking outcomes of the seminars which we ran over at NTT, and a lot of Mr. Moore's people were there and Mr. Frischkorn's people were there, was the frustration of a lot of American companies who were coming not to tell other American companies how to get into the Japanese market, but just the reverse. We're saying to them don't bother. You know, it's not going to do you any good. You're going to invest X, Y, and Z. And I heard that in California, in Texas, in Colorado and in Washington, DC. I did not attend the Boston meeting.

Mr. **Garfinkel**. I will be frank and say that I think our association is very concerned about the situation and the frustration that is building, and they recognize that they are going to be hit. They are going to be the first ones to lose their access to the United States market if the situation doesn't change, and that is why they have been vigorously working with the Japanese Government to try and do what they can.

Mr. **Wirth**. Before we bring Mr. Moore off the baseline, before he turns into a pumpkin, should we as a subcommittee—you heard the discussion earlier about the telecommunications sector, and Mr. Yochelson's specific challenge of telecommunications. Should we, as a subcommittee, focus on this issue in a sector fashion in the area of telecommunications? Or as some would argue, a broader trade issue that goes country by country?

Mr. **Moore**. Is this my question?

Mr. **Wirth**. All of it, yes.

Mr. **Moore**. I am often chastised when I come up here, when I make naive statements like we ought to run the Government like we try to run a business. And I think we have got a business principle here. You used a good word, Mr. Chairman, which was "focus." I think if you want to be effective, and you are going to practice the old rule of 80-20, where do you really get the bang for the investment of your time. And again when I argue that telecommunications could be the dominant industry segment in the information and society as we move out through the end of the decade and beyond, yes, I think you would do well to become as expert as possible in this area, because I think it's a fulcrum.

Mr. **Wirth**. More than becoming expert, assume that the subcommittee is, by the fact that it's a subcommittee, expert.

Mr. **Moore**. Yes.

Mr. **Wirth**. Of course, it's not true, but we have that responsibility. The question is, should we not become just expert, but should there be actions that are taken that are sectoral that focus just on the telecommunications area? And your answer would be yes, I take it?

Mr. **Moore**. My answer would be yes, and again I would want to reinforce how important that market is because no sooner do we resolve, as I think we will, the Japanese issue, than we are going to start talking about transporting our data and we are going to talk about all kinds of interconnect standards in Western Europe. So I think it will be a continuing dialog.

Mr. WIRTH. This is going to get us then to the specific things you think we ought to be doing?

Mr. MOORE. Yes, sir.

Mr. WIRTH. Let me ask Mr. Garfinkel and Mr. Frischkorn. That's correct, Mr. Frischkorn, is that the right pronunciation?

Mr. FRISCHKORN. Correct.

Mr. WIRTH. Mr. Garfinkel, should we be doing this do you think, in a sectoral fashion? If you were putting back on your Reagan White House hat, would you say yes, do it in a sectoral fashion or not?

Mr. GARFINKEL. Yes, I think the sectoral fashion is an important way to approach this. I think when we start looking at telecommunications overall, it might be useful to look at this in the context of another code, where those who join get the benefits of that code and greater access for their exports. Those who don't, wouldn't enjoy those benefits. This is the same approach we took with subsidies and countervailing duties.

Mr. WIRTH. Could you expand on that for the record, what you mean by developing that kind of a code? I will leave the record open. Would you be willing to define that more specifically for us?

Mr. GARFINKEL. Sure.

Mr. WIRTH. That would be very, very helpful if we could do that. Mr. Frischkorn.

Mr. FRISCHKORN. Well, it sounds as if Mr. Garfinkel is proposing something like the Government procurement code in GAT, but perhaps it is something broader.

I would agree that this ought to be approached on a sectoral basis. I think the telecommunications industry worldwide is unique. Again, most foreign PTT's are closed to us. In Japan you have a unique situation where we have an agreement with them that was designed to open up a PTT that has now become a quasi-private company.

Yes, I think the sectoral approach is the way to go. Rather than approaching the problem in a broader way. That way it won't become confused with a lot of other trade problems that we have.

Mr. WIRTH. So we have established in this exchange that one, this problem is getting significantly worse, that Mr. Garfinkel and his group also recognize that, working on the Japanese companies. That's one.

Second, we have established the fact that we ought to do this on a sectoral basis.

So third, we get then back to Mr. Moore. It's 8 love, as you suggested. The set's gone by and Martina is serving. Now what do you do?

Mr. MOORE. I have to get out of this analogy and try another.

Mr. WIRTH. Playing with these Japanese tennis balls.

Mr. MOORE. Right.

Well, let me again signal to you how important I think your subcommittee is, and how we are not just having problems. We are hemorrhaging. And the analogy that I would use from a business point of view is that of a company that suddenly has a terrible cash flow drain. Certainly it is not profitable. But now the only thing they have to worry about is cash. They have to somehow figure out how to plug and stop the bleeding, and they have to figure out how to do it quick, because the very lifeblood of the company is being threatened, and if they don't stop their bleeding from a cash flow point of view, they are going to go under. They are going to find themselves on the courthouse steps.

Now, that may be a bit overdramatic in terms of this, but it's not too overdramatic. I am going to ask subsequently that we submit to you, and perhaps you would like to read into the record, a letter from David Packard that was just received by one of my peers about the trade problem. David Packard cochairs a Japan-American trade group. He also is a man who has been vehement in terms of open and fair trade, and he's done a 180 degree turn on us.

What do we propose, then? The same thing that a chief executive of a company would do; just about anything short term he could to stop the bleeding. We think the same thing is appropriate in this situation.

We are considering temporary measures, implemented quickly, which stem the flow of Japanese imports in the telecommunications area, and possibly in other areas, into the United States, unless and until the already agreed-upon commitments which the Japanese have made to open their own market are implemented. And this can be done in a number of ways. It can be done by quotas, it can be done by review processes, such as Congressman Rinaldo has stated. There are any number of ways by which you can stem the outflow and the inflow of imports. You can stem that on a temporary basis. And that's what we are considering. We are considering a temporary stop which essentially has brought us—to mix analogies, we are back at the net now, we are trying to stop the losses. And we are considering a whole series of these particular types of actions that are very, very point-by-point specific. The AEA is working again with Congress and my next appointment, is with Mr. Olmer. He's having a few problems of his own right now.

But we are suggesting to him a whole number of specific immediate actions that can be enacted over the short term to essentially send the message loud and clear, and in the process of sending the message, stop the trade imbalance immediately in key areas.

Mr. WIRTH. Mr. Moore, we have your written testimony in full, but could we ask you also for the specifics of what you would do if you were sitting in the position that Congressman Nielson and I and the other members of the subcommittee are sitting in.

Mr. MOORE. What would I do immediately?

Mr. WIRTH. For the record, if you could, and I am sure that the AEA has thought that through, but I think that is the kind of specific item that we ought to have. [See p. 119.]

Mr. WIRTH. And Mr. Garfinkel is going to submit an approach that he would suggest we take.

Mr. GARFINKEL. We will be glad to do that.

Mr. WIRTH. What would your response be, Mr. Garfinkel, under that same question, what would you do if you were sitting where we are?

Mr. GARFINKEL. Well, frankly, I don't think retaliation is the answer. I think the United States loses, the consumers lose, the

Japanese obviously would lose. I have attended many meetings of the U.S. Telephone Suppliers Association, and the sense I get is that the industry itself would have a hard time deciding whether or not they would favor a restriction on any kind of import flow from overseas. And that is, I think, because a lot of industries and a lot of workers in this country are dependent upon imported equipment.

I would recommend, and I will change sports, that the United States implement a full court press on this issue in dealing with the Japanese and the Europeans and anyone else. And that would mean devoting significant resources—I think you would want to bolster the staff we have got in Tokyo, perhaps bolster the staff we have got in Brussels and here in Washington, that are monitoring what is happening in the implementation of agreements, such as the NTT agreement to make sure the bureacrats implement agreements that we have negotiated. And I would keep the pressure on. And I think CIA-J would work with you in that capacity.

But I don't think a retaliatory response at this time would do much more than shoot ourselves in the foot.

Mr. **Wirth**. Mr. Frischkorn, in bringing Ryan Durham out of the bullpen, all right, what would you have him throw?

Mr. **Frischkorn**. During the testimony of the other witnesses as well as that of my panel, I have been making some notes, and I have three words that I have written down: leverage, performance and credible threat. I would like to draw upon these three words to answer your question.

The problem we have in the telecommunications trade was really created largely by our own actions. We gave away any leverage we might have had when we broke up the Bell system without getting a reciprocal trade benefit. That is the problem. We don't have a whole lot of leverage on our trading partners, other than moral suasion, quite frankly, to get them to open up their markets. That is a problem. Unless we have some leverage, we cannot be a credible threat to them. The only credible threat I think we can have is closing our markets to their products.

In connection with Japan specifically, I would have to say that if these current negotiations, the MOSS negotiations, are not successful, and even if the ordinances by some miraculous chance are sanitized to the point where it provides roughly a level playing field, that should not be the whole ball game.

What the ball game is, is performance—actual sales into that market. Again I go back to the NTT analogy. We have an agreement, we have not made much progress under it. If we get sanitized ordinances, the Japanese will say wait for 1 or 2 years more to see if these changes will result in sales. If they don't, you know, we are going to be in no better position than we are now. In fact, given the import statistics going like this—witness draws imaginary line with his finger—we are going to be in quite a worse situation.

So, in short, I don't think we have any choice. If the Japanese don't agree to some type of market opening measures, we have to retaliate.

With respect to the rest of the world, the problem is a little different, it's a little more complex and a little more long term. There

BEST COPY AV... ..LE

I think what we need to do is to enter into some type of negotiations on a multilateral or bilateral basis, again holding out a credible threat of closing off our market to their manufacturers if they don't in fact take some market opening measures.

Mr. **Wirth**. We would ask you the same way if you would submit to us for the record in answer to that question what would you do if you were where we are. Assuming whatever level of expertise you want to assume. [See p. 117.]

Mr. Nielson, I'm sorry, I went much too long, and I appreciate your patience.

Mr. **Nielson**. Thank you. I was going to mention to Mr. Moore that I know you are a tennis player, but if you stay back at the baseline, then you have to learn to drop it just over the net. The thing is you don't stand pat, you move around and you change your strategy and move as the ball moves. I think if you reverse your strategy and come to the net, you could be probably more embarrassed than what you are doing now.

Mr. **Wirth**. Spoken like an expert politician.

Mr. **Nielson**. I would like to suggest that I would like also for the record to have Mr. Garfinkel and Mr. Moore both tell us how you would solve this problem. Mr. Wirth, Representative Wirth, I should say, has taken on a new area. We have not done much in international trade in this subcommittee in prior years. I think it is an area that needs to be looked at. I think we have been waiting around for 3 or 4 years for his initiative and his leadership, and I am certainly happy to join this subcommittee for anything you could do to give us some suggestions which are not harassing to either the Japanese or to our own people. That would be most helpful.

Thank you, Mr. Chairman.

Mr. **Wirth**. I will also leave the record open for a response to Mr. Nielson in terms of the involvement that we have had in this area for the last 3½ years, to the extent of enormous frustration and pain, I might say, as per my discussion with Mr. Garfinkel. We have been through this and been through it and been through it, and been nicely at the baseline, to go back to Mr. Moore's analogy.

Mr. **Nielson**. If the gentleman will yield, I was trying to compliment you on your initiative.

Mr. **Wirth**. Mr. Moore, did you have any closing thoughts or comments you wanted to make?

Mr. **Moore**. The only closing thought I would like to make is that I would like to point out again how serious this problem is, and the financial model of our electronics trade with Japan has been in free fall for some time now. When I first came, as I think Congressman Bryant knows, when I first came to my company in Texas, we had a similar problem with cash flow, and the solution at that point was for the chief executive to immediately sign all the checks. Nobody spent any money unless the CEO signed the check. I think we are in a similar position in international trade. Somebody has got to start approving the transactions, and if we don't get that level of control, we are going to continue to hemorrhage, and I am very, very concerned about it. And in that light I speak not only for myself as a president and chief operating officer or chief executive of a company, but I also speak for a lot of my peer group who work day to day in the trenches.

Thank you.

Mr. **Wirth**. Mr. Garfinkel or Mr. Frischkorn, does either of you have comments you might like to make in closing?

Mr. **Garfinkel**. I have nothing further to add, sir.

Mr. **Frischkorn**. Just one final point. I want to point out that the U.S. industry does not want to close our markets. This gets back to a point made during at least one colloquy at today's hearing. What we want is to open foreign markets. We want to be able to have access to their markets on the same basis as they have access to our market. But if we cannot have that access, I fear that we must give ourselves the credible threat of closing off our market to foreign telecommunications products.

Mr. **Wirth**. Mr. Bryant.

Mr. **Bryant**. I am amazed that we haven't acted already, and surely if we went back to 1980 and said if they don't let us into their market pursuant to the agreements we have entered and so forth, that we would act in the way we should act. And if someone said, well, should we give them 4 years to let us into their markets, I think everyone would say no, that's way too long.

Well, it's been 4 years. It seems to me that the time to act is right now. What I'm curious about and wanted to ask Mr. Moore in particular—because I know you have a great deal of experience in dealing with them, and you have a Japanese subsidiary and maybe you have some insight into what they do over there. How would the specific people that you have to deal with over there react if today we had sanctions of some type or some type of retaliatory measure in effect?

Mr. **Moore**. Congressman, I would like to put this as a personal opinion, again based on my relationship, and again we have strategic relationships with Toshiba, one of the largest Japanese trading companies, and we are expanding those relationships. So I would like to answer for my own self and my company, rather than for the member companies of AEA. That is an important distinction.

I sense that just like a person who has got an awfully good thing going, they wonder when it's going to stop. I would sense that the tough hardnosed Japanese businessman is pursuing his advantage. He is somewhat amazed that we have not curtailed his activities up to this point. And I would assume that while it would be reacted to not happily, I think it would be understood as a reaction that was probably long overdue. [See p. 119.]

Mr. **Wirth**. Gentlemen, we thank you very much. We look forward to hearing from you in your responses to our questions. As I pointed out, your testimony will be put in full into the record and we look forward to working with all of you, and we look forward to hearing from you as quickly as possible.

Thank you for being here. I think we have gotten you out in time, Mr. Moore.

[Whereupon, at 4:50 p.m., the subcommittee hearing was adjourned.]

[The following letters were submitted for the record:]

GTE

GTE Service Corporation

Allen R. Frischkorn, Jr.
Assistant Vice President
Government Relations
Products Operations

1120 Connecticut Avenue, N.W.
Washington, D.C. 20036
202 463 5230

April 17, 1985

The Honorable
Timothy E. Wirth
Room 2125, RHOB
U.S. House of Reprsentatives
Washington, DC 20515

Re: International Communications

Dear Congressman Wirth:

I very much appreciated the opportunity to testify before the Subcommittee on Telecommunications, Consumer Products and Finance on March 27, 1985 on the subject of international telecommunications trade.

At the hearing you asked me to submit, for the record, an answer to the question: "What would you do if you were in my position to solve the telecommunications trade problem?" I am enclosing herewith a written response to this question. I have also sent the answer along to the printing clerk to be inserted in the transcript where appropriate.

Again, I appreciate the opportunity to participate in these important hearings. Your interest and the interest of your subcommittee on this matter of crucial importance to the U.S. telecommunications industry is much appreciated.

Sincerely,

Allen R. Frischkorn, Jr.

ARF/mrm
Encl.

Mr. Chairman, if I were in your position today, my principal objective would be to secure the enactment of comprehensive trade legislation aimed at the unique problems of the telecommunications sector. The principal purpose of this legislation would be the creation of negotiating leverage to enable the U.S. government to secure the opening of foreign telecommunications markets. Enactment of comprehensive legislation, providing for systematic, country-by-country negotiations, and, where necessary, the imposition of sanctions by the goverment, would be more effective than virtually any other step the government or private parties could take to address this problem.

Telecommunciations legislation should be aimed principally at opening foreign markets, not closing our own. The Executive should be given a mandate to negotiate market-opening agreements, and a clear mandate to impose restrictions when our trading partners do not agree to provide equivalent competitive opportunities to our companies or fail to adhere to their commitments. Because of the rate at which the trade imbalance is growing in our sector, time is of the essence -- the Executive should be required to achieve market-opening results, or impose restrictions, within a comparatively short time frame. The Executive should be given a range of retaliatory tools sufficiently flexible to enable the fashioning of remedies which do not inadvertently injure U.S. companies, but at the same time, the Executive's discretion should be sufficiently limited to ensure that any country that refuses to provide equivalent competitive opportunities will face the certainty of offsetting measures.

The U.S has, through a series of regulatory measures, unilaterally opened the U.S market for telecommunications equipment. As a practical matter only the Congress can provide a comprehensive solution to the fundamental imbalance in market opportunities which has resulted. It is our hope that your Subcommittee, which has in the past shown substantial concern over this issue and its implications for the well-being of our industry, will work to secure the enactment of such legislation this year. We look forward to supporting you in this effort.

American Electronics Association
Government Operations Office
AEA

1612 K Street N.W.
Washington, D.C. 20006
(202) 331-8050

May 31, 1985

The Honorable Timothy E. Wirth
U.S. House of Representatives
Committee on Energy and Commerce
Room B-334, Rayburn House Office Building
Washington, D.C. 20515

Dear Mr. Chairman:

Enclosed for your consideration are my responses to your questions from the March 27th hearing on International Telecommunications. I have also included my edited version of the record. I hope that you will find these of use in your efforts to mitigate the difficult problems currently facing U.S. producers of telecommunications equipment in the global market.

Allow me to congratulate you once again on your leadership in this area. I very much appreciated the opportunity to present the views of the American Electronics Association before your Subcommittee. We look forward to working with you and your staff in any way possible as this issue evolves in the future.

Sincerely,

Wm G Moore

William G. Moore
Chairman

Enclosures

Additional Submission of William G. Moore, Jr.
on behalf of the American Electronics Association to
The House Committee on Energy and Commerce
Subcommittee on Telecommunications,
Consumer Protection and Finance

The American Electronics Association recommends that the Subcommittee consider legislative measures which focus attention on the market access issue for U.S. telecommunications exports. AEA would advocate that such legislative measures contain the following:

1) Provisions distinguishing between protection of the U.S. market and responding to foreign unfair trade practices.

   The aim of any legislative efforts in this area should be the opening up of foreign markets to U.S. telecommunications equipment. Simply closing the U.S. market would harm the competitiveness of U.S. industry as well as the interests of consumers. Measures must be aimed at getting foreign countries to end unfair trading practices and allow for U.S. suppliers to realize the benefits of their highly competitive posture.

2) Provisions directing the President to initiate negotiations on trade in telecommunications product.

   To date, very few countries have indicated any willingness to agree to rules governing trade in telecommunications equipment. Without a Congressional mandate and assurance that adequate resources will be devoted to this issue, the reality is that other countries will refuse to enter into serious trade negotiations with the U.S.

3) Incentives to encourage countries to participate in such negotiations as well as penalties for those which do not or fail to live up to the commitments which are made.

   Inducements by way of both incentives and penalties should not be mandated in a rigid fashion, but rather should give the President sufficient flexibility to adjust Administration responses to carefully match the circumstances. This flexibility is important to insure that any U.S. response is designed to avoid inadvertent injury to U.S. producers, minimize adverse impact on consumers, and be consistent with international commitments.

4) Delegation of authority for the implementation of remedies to the U.S. Trade Representative.

   In the past, the U.S. has been constrained from taking action to maintain equity in trading relationships for reasons unrelated to commerce. This has caused confusion among our trading partners and frustration among commercial interests who believe that their rights are being ignored. Allowing the USTR to make decisions based upon these rights which are consistent with our interenational obligations will reduce confusion and miscalculation on the part of other countries. It will also reduce frustration in the U.S. which could ultimately lead to protectionism.

PROBLEMS IN TRADE TELECOMMUNICATIONS

THURSDAY, MARCH 28, 1985

House of Representatives,
Committee on Energy and Commerce,
Subcommittee on Commerce,
Transportation, and Tourism,
Washington, DC.

The subcommittee met, pursuant to notice, at 10:30 a.m., in room 2123, Rayburn House Office Building, the Hon. James J. Florio (chairman) presiding.

Mr. **Florio**. The subcommittee will come to order.

I would like to welcome all in attendance to a continuation of this subcommittee's series of hearings that we've conducted over the last few years on trade problems.

This one, of course, is focusing on the trade problems that the American telecommunications industry has. I think it is not an overstatement to say that the telecommunications industry in this Nation is in a state of crisis. Foreign markets remain effectively closed to U.S. exports while our market has been open completely to foreign imports.

As a result, our once strong surplus in telecommunications trade is on the verge of disappearing and a hugely growing deficit has emerged. Last year we had more than a $700 million deficit in telecommunications trade. This year that deficit is expected to double.

Clearly our problems in this area are extremely serious. The seriousness seems all the more threatening to those of us who see our future as a world economic leader, tied to the strength and competitiveness of the telecommunications industry. We cannot and will not allow our future to be stolen from us.

Either the opportunity to compete in the international telecommunications market shall be greatly increased, or new conditions governing foreign access to our own domestic market must be considered.

Quite frankly, I am becoming more and more convinced that the latter alternative is more probable and will be the course of action taken by this nation.

I want to thank each of the witnesses—and we have a group of witnesses that is particularly distinguished—for participating in today's hearing.

I think it is interesting that the timing of the hearing happens to occur at the same time that the press is announcing the Japanese interpretation of the voluntary restraint lifting understanding. I think that, in a sense, puts a fundamental question before us today in these hearings with regard to the whole concept of relationships with our foreign trading partners, and that concept is good faith.

I think it is important that we perhaps delve into that a bit today in the larger context of trade relationships.

I would be happy at this point to represent the gentleman from Ohio, Mr. Eckart.

Mr. Eckart. I thank the chairman for convening this hearing, and I welcome Secretary Olmer. Your clips have been good so far, Mr. Secretary, on these issues. If we can turn your clips and statements into some constructive action—I met with some of your representatives when I was in Japan earlier this year, frankly, from the Japanese Government. I received very nice words, not very much nice action at all. And the approach you have taken, Mr. Secretary, particularly in trying to open up areas of trade where we know we can be competitive—pharmaceuticals, agriculture, telecommunications—I think can do a lot for my unemployed autoworkers and steelworkers who are still feeling very disadvantaged, and I do not think it's your fault. I read your remarks, and I look forward to your testimony.

The announcement in this morning's paper is unfortunate. I think Japan's announcement is neither voluntary nor restraining. And to the extent that this administration can help give us a focus, I think we will all be better served by that.

So, Mr. Chairman, I look forward to the witnesses. I think this is a timely hearing, as unemployment continues to be half again as high in my district as it is across the nation at large, and I look forward to this morning's witnesses.

Mr. Florio. Thank you very much.

The gentleman from Indiana.

Mr. Coats. Thank you, Mr. Chairman.

I also am looking forward to hearing from Mr. Olmer and appreciate the hard work and the many, many obstacles you have been dealing with in the past several months. I am anxious to hear from you on that.

I do just want to briefly say, however, that although I have always considered myself to be staunch supporter of free trade and believe in the basic principles of free trade, I, like most others, am deeply disturbed about some things that are happening. We have had our difficulties in opening foreign markets to our exports.

I think we have been more than fair in opening our markets, but we have not seen the appropriate reciprocity from our trading partners, and it has had a negative effect on our economy and our businesses. It is particularly troublesome lately to see the difficulties in opening the Japanese market to our telecommunications equipment. Even when you discount the differences in the dollar and a number of other factors that are raised as reasons why we can't penetrate that market, the bottom line is that there are many goods and services that we provide in that industry that are more than competitive, and yet we do not have the opportunity to compete on a fair basis.

I would hope that Congress would not overreact, but I think it's very, very important to send more than a message, and to make it very, very clear that the mood has changed dramatically in Congress. And as I talk to members from both sides of the aisle, both sides philosophically on this issue, there is almost unanimous agreement that something must be done and must be done very, very quickly, or we're going to see legislative action that may or may not be beneficial to the interest of the world economy. But it's going to happen.

There is a great intensity of feeling present. I think if a bill were on the House floor today, it wouldn't get more than 50 votes to preserve the status quo. I think we need to take a serious look at what we're facing here, and I am certainly looking forward to your perspective on this issue. I welcome you.

Mr. **Florio**. We'd like to welcome as our first witness the Hon. Lionel Olmer, Under Secretary of Commerce for International Trade.

Mr. Olmer, we're pleased to have you back before our committee. As with all of our witnesses today, your statement, in its entirety, will be placed into the record, and you may feel free to proceed in a summary fashion.

STATEMENT OF LIONEL H. OLMER, UNDER SECRETARY FOR INTERNATIONAL TRADE, DEPARTMENT OF COMMERCE

Mr. **Olmer**. Thank you, Mr. Chairman.

I have spent a good deal of time thinking about this issue and about preparation of a formal statement, and as you say, it will be part of the record. I propose not even to summarize it, but to make a few comments on the topic that you have asked me to address, and to provide you and your committee members perhaps a larger opportunity in terms of time, at any rate, to ask their questions of me.

We indeed have very serious problems respecting our international trade position in telecommunications equipment and telecommunications services. They are problems that go way beyond those that relate to the strong value of the U.S. dollar relative to foreign currencies or to the fact that our economy has shown superb strong growth in the last couple of years in a period when foreign economies have not grown nearly as quickly, thus making our market a magnet and opportunities abroad even less than they might otherwise have been.

And yet we have problems that go well beyond those two issues. As I say, they go to what has been the heart of what I believe to be and what has been an essential part of our trade policy activity—that is, to assure open markets for goods and services where U.S. companies are competitive.

We have made some progress. We have not made progress commensurate with the abilities of our industries to compete. Our problem today, I think, is substantially a Japanese one. It is interesting to note that Japan is not merely America's problem. It has growingly become a problem for other economies in the world who face similar barriers to access of their goods and services. Our economy, our country, our trade policy has been founded on the principles of maintaining an open market system, because we believe it's best for companies and for consumers, and we will maintain that view and, I think, will prevail in that view.

It yet remains to be seen whether we have communicated the full sense and import of that realization at all appropriate levels of the Japanese bureaucracy. I have no doubt whatsoever that the understandings that have been reached between President Reagan and Prime Minister Nakasone most recently in Los Angeles on January 2, 1985, in which an agreement was reached to pursue market opening measures in the four sectors including telecommunications—that there is a sharp, precise comprehension of the seriousness of the problem to the United States and that swift action is necessary.

In the process of negotiating on telecommunications, however, it has become apparent that whether or not all levels of the relevant Japanese agencies share that view, it is not as significant, I might point out, as the fact that they have a different concept of their role with respect to the regulation of telecommunications.

Now we have had thrust upon us a benchmark date of April 1, 1985, because that is the date when ostensibly the Japanese telecommunications monopoly will become privatized, but "privatized" doesn't mean deregulated. It doesn't mean deregulated even the sense that the American telecommunications industry is largely deregulated. It means deregulation or privatization in a Japanese context, and that context will not be adequate to assure equivalent market opportunities for American companies. We need more than the Japanese concept in order to provide equivalence.

We are seeking that as our negotiating objective. I have been given very strict instructions as to the limits of my negotiating authority. That process is one which has engaged several departments of the executive branch.

Ambassador Mike Smith of the USTR is cochairman of the telecommunications sector group. We are working hand in glove in this area. We have some hope of achieving some progress, and we have already signs that some progress has been achieved. But I would be less than candid if I suggested to you that success is assured by April 1.

And the significance of April 1 in our minds, Mr. Chairman, is that telecommunications is different than commodities such as steel. If we lose the ability, beginning on April 1, to compete equivalently, we stand a chance of losing the opportunity to gain market share, and that market share, once lost in telecommunications, will not come around again with next year's requirements of a few tons of steel or another commodity, once lost, it may be lost for a considerable period, if not forever, and so we have pursued that, welcomed that benchmark date because it imposes on the executive branch a difficult standard to meet, but it is a clear standard.

We are coming very close to the point at which a judgment can be made as to whether we achieve success. And with that, I would close my remarks and offer myself up to you for questions.

[Testimony resumes on p. 136.]

[The prepared statement of Mrs. Olmer follows:]

STATEMENT

OF LIONEL H. OLMER

Mr. Chairman:

Thank you for the opportunity to testify on the adequacy of U.S. trade law in dealing with the problems of our telecommunications industry's access to foreign markets. The Administration shares your concern over our country's rapidly deteriorating international trade balance in telecommunications equipment. We have placed high priority on obtaining greater access to foreign markets for both products and services of the U.S. telecommunications industry, which is one of our most competitive industries internationally.

The Problem

Before discussing U.S. trade law, I shall summarize the problem we face in telecommunications trade. The United States is the world's leader in the production, consumption, and sales of telecommunications equipment. Although U.S. technology in telecommunications is unsurpassed, our international trade position in telecommunications equipment is not commensurate with our leadership position.

1984 was the first time the United States had a trade deficit in overall communications equipment, which was valued at $729 million. This was a dramatic reversal of our long-standing trade surplus in communications equipment. As recently as 1980, we had a world-wide trade surplus of $1.5 billion in communications equipment. The other major telecommunications producing countries all had world-wide telecommunications trade surpluses in 1984.[1] In the case of Japan the surplus was well over $1 billion. As in most recent years, we exported only 10 percent of domestic production in 1983, compared to 22 percent for Japan, 19 percent for the EC, and 21 percent for Canada.[1] Meanwhile, imports represented 10.5 percent of consumption in the United States, compared to only 1.4 percent in Japan, 9 percent in the EC, and 8.2 percent in Canada.[1] The U.S. import penetration ratio more than doubled from 1981 to 1983.

---

[1] EC trade data include only extra-EC trade.

Our telecommunications trade deficit results both from general problems that affect all sectors of our trade as well as from factors unique to telecommunications equipment and services. There are two systemic factors: the high value of the dollar and the uneven recovery from the recession.

-- The high value of the dollar has made foreign telecommunications equipment more price-competitive in the U.S. market. However, the dollar's value has had a smaller impact on U.S. exports because foreign government entities (such as PTT's) are not as price-sensitive as private U.S. purchasers are.

-- The uneven economic recovery from the worldwide recession of the early 1980's has provided foreign suppliers an open export market which grew at a rate approximately three times that of their domestic markets.

Our efforts to address these broader problems will yield corresponding benefits to the U.S. telecommunications trade picture. They will not be sufficient to totally rectify effects of developments in the telecommunications sector itself. Four factors contributing to our trade deficit which are unique to telecommunications equipment and services are: deregulation of the U.S. market, discriminatory foreign procurement procedures, foreign standards, testing, and certification procedures, and monopolization of foreign markets for telecommunications services by foreign PTT's.

-- Progressive deregulation of the U.S. telecommunications market between 1968 and 1984 has provided virtually unrestricted access for foreign suppliers to the $21 billion U.S. market. This market is larger than that of the EC, Canada and Japan combined. Instead of one dominant buyer, the U.S. offers a multitude of competitive buyers, each interested in getting the most product for the best price.

-- Foreign PTT's favor national suppliers when purchasing telecommunications equipment, thereby discriminating against U.S. suppliers.

-- Standards, testing, and certification procedures of our major trading partners place U.S. suppliers of telecommunications equipment at a disadvantage. These procedures are frequently used by our trading partners to delay U.S. suppliers' access to their markets until our trading partners' domestic telecommunications industry is able to develop products to compete with new U.S. products.

-- Most foreign countries' PTT monopolies include telecommunications services that are wholly or partially deregulated in the U.S. Restricted access to foreign markets for telecommunications services also restrains U.S. exports of telecommunications equipment because of the close relationship between these two parts of the telecommunications industry.

Many U.S. telecommunications companies sell to foreign customers through overseas subsidiaries, at least in part to deal with buy national policies. For example, European subsidiaries of U.S. telecommunications companies generated over $3 billion in revenues in 1983, while we exported only $354 million in telecommunications equipment to Europe.

Japan is the principal source of our trade deficit in communications equipment, accounting for 50 percent of U.S. imports in 1984. The U.S. deficit with Japan in communications equipment trade quadrupled from 1980 to 1984, when it reached almost $2 billion. Other contributors to our communications equipment trade deficit in 1984 were: Taiwan (a deficit of $265 million), Canada (a deficit of $181 million), and Hong Kong (a deficit of $159 million). Our deficits with Taiwan, Hong Kong, and Canada have almost doubled since 1982. On the other hand, we continue to maintain a healthy surplus in communications equipment trade with the European Community, valued at $535 million in 1984.

Our Efforts to Obtain Market Access

The Trade and Tariff Act of 1984, recently passed by Congress, provides the Administration with new negotiating mandates and authority to address the market problems I have enumerated. We intend to make use of these authorities to achieve our objective of more open access in the telecommunications sector.

The 1984 Act gives the President authority to negotiate tariff reductions on certain high technology equipment, such as transistors and integrated circuits. The Administration has already used this authority and concluded an agreement with Japan which provides for the elimination in both countries of tariffs on semiconductors. Semiconductors are important components in many telecommunications products. We believe that our telecommunications equipment manufacturers, as well as our semiconductor industry, will benefit from this action.

The 1984 Trade Act also specifies negotiating objectives in the areas of services, high technology, and investment. Telecommunications trade will clearly benefit if we are successful in these areas.

The Administration is pursuing these negotiating objectives in both bilateral and multilateral contexts. On the multilateral front, we are pressing our trading partners to support the launching of a new round of trade negotiations. Negotiating trade rules in the areas of services, high technology, and investment would all be key U.S. objectives in a new trade round. In the area of high technology, one of the Administration's key objectives is the elimination of discriminatory government procurement practices particularly as they apply to technology intensive products. As noted earlier, these "buy national" policies are one of the most onerous barriers to U.S. telecommunications exports. We continue to press for the commitments necessary to start negotiations in early 1986.

The new provisions in the Generalized System of Preferences (GSP) program reflect a number of U.S. industry and Administration concerns regarding market access in developing and newly industrialized countries. Of particular relevance is the provision that, in granting GSP benefits the President must consider the extent to which a GSP beneficiary country is providing reasonable access to U.S. goods and services, as well as adequate protection of intellectual property rights. A number of the major GSP beneficiaries, such as Hong Kong, Korea, and Taiwan are rapidly growing and potentially large and lucrative telecommunications markets for U.S. suppliers, as well as being important sources of U.S. imports in this sector. We hope to encourage through the GSP program further liberalization in these emerging markets.

In addition to providing mechanisms and objectives for negotiating trade liberalization, current U.S. trade law also provides mechanisms to protect U.S. industry from the unfair trade practices of its foreign competitors. The antidumping and countervailing duty laws eliminate the advantages within the U.S. market of injurious unfair trade practices. The antidumping statutes have been used for two U.S. telecommunications products--pagers and cell-site transceivers--to eliminate the effects of dumping, and a third telecommunications dumping case--involving cellular mobile telephones and subassemblies--is currently under investigation.

Another important mechanism to eliminate the effects of unfair trade practices on U.S. industry both in the U.S. and overseas markets is the "Section 301" authority. Under Section 301 of the 1974 Trade Act the President is given authority to seek the elimination of unfair foreign trade practices that burden or restrict U.S. commerce. As you are aware, in Section 301 proceedings the Administration seeks first to correct the practice through consultations and, where applicable, international dispute settlement procedures. If consultations prove fruitless, the Administration may, of course, resort to retaliation and raise trade barriers to foreign goods and/or services to provide additional incentives for foreign countries to change the objectionable practices.

We believe that the changes in the Section 301 authority legislated by the Trade and Tariff Act of 1984 can make the Section 301 procedure an even more effective tool in reducing foreign telecommunications trade barriers. First, we welcome the expanded Presidential authority to restrict or deny to foreign applicants services sector access authorization such as licenses and permits. This change is particularly relevant to the telecommunications sector. International telephone and telegraph services, broadcasting, and telecommunications software comprise an important and highly dynamic component of telecommunications trade. In addition, some of these services, such as broadcasting, are not closely tied to a physical product. Therefore, the traditional means used to restrict entry of goods--tariffs and quotas--may not present a credible threat to hinder or bar sales of foreign supplied services in the United States.

However, the determination of reciprocity is extremely difficult to sort out in a services context where foreign regulatory structures are involved. Therefore, we believe that our most promising field of action for promoting increased access to foreign markets for telecommunications services is via negotiations on trade in services and international discussions on telecommunications deregulation.

In addition to clarifying the applicability of Section 301 negotiating authority to services, the 1984 Act also authorizes the establishment by the Secretary of Commerce of a Services Industry Development Program of policy, data improvement, trade promotion, and analytical activities. This Program has now been established and will submit its findings and recommendations in a biennial report to Congress, as required under the 1984 Act.

Currently, the U.S. Government has the authority to self-initiate 301 cases. We intend to work with the USTR to self-initiate 301 investigations promptly whenever we detect foreign trade practices which could meet the Section 301 standards.

Finally, we support the Congressional elaboration of the Section 301 "unreasonable" standard to include, inter alia, practices which deny fair and equitable market opportunities, opportunities for the establishment of an enterprise, and provisions for protection of intellectual property rights. Again these changes have particular relevance to the telecommunications sector. As noted earlier, software services are an important component of telecommunications trade. Adequate and effective protection of intellectual property rights is a necessary basis for U.S. sales of software services. As a result of economic and trade policy factors, many U.S. firms sell their telecommunications products through their subsidiaries located in foreign markets. The right of establishment therefore becomes a necessary condition for many U.S. telecommunications sales abroad.

In summary, Section 301 authority, particularly with the amendments provided in the Trade and Tariff Act of 1984, enhances our ability to address market access problems.

As I mentioned earlier, our strategy to obtain greater access for U.S. telecommunications products and services has been to proceed on bilateral and multilateral tracks at different paces. In addition to the approaches described above, we are giving especially high priority to bilateral trade negotiations on such sectors as telecommunications. Although our present bilateral discussions with Japan have received most of the limelight recently, we are considering the inclusion of telecommunications trade in bilateral discussions with Canada and possibly with other countries.

An indication of the seriousness of our efforts to pursue bilateral trade liberalization is the recent U.S./Canada summit meeting. In their declaration of March 18, President Reagan and Prime Minister Mulroney of Canada directed that action be taken to seek the reciprocal elimination or reduction of tariff and non-tariff barriers to trade in high technology goods and related services.

As for our bilateral discussions with Japan, we have given telecommunications the highest priority among the four sectors selected for market-oriented sector-specific discussions during the Reagan-Nakasone summit of January 2, 1985. We have made some progress during the telecommunications discussions, but I would not want to make any final judgment at this stage about overall success. We do hope to see the progress we have seen in recent bilateral discussions reflected in the ordinances that are to be announced during the first week of April by the Japanese Government to implement the Telecommunications Business Law of 1984.

Mr. **Florio**. Well, let me almost cut right to the bottom line. Do you feel that the negotiations, the current round of talks, will result in any substantial increase in United States sales of telecommunications into the Japanese market?

Mr. **Olmer**. Eventually—I mean by that, over the next several years, my answer would be "probably," not guaranteed and we're not asking for a guarantee. All we're asking for is our competitive companies to be given the opportunity to compete fairly and squarely.

But I would have no guarantee of that. I would have no high assurance of it. But I think it's a probability.

Mr. **Florio**. But I thought you concluded your comments by saying that the key operative period is the next immediate period. And I can understand that the nature of the telecommunications industry is if you're in at the outset, you're almost guaranteed being in over the long haul because it becomes very difficult to switch systems.

So that I suppose my question is really directed to the period of time in the immediate future which may very well dictate long term degrees of success at market penetration. Do we foresee that your round of discussions that you've had is going to result in any appreciable increase into our capability to obtain a substantially greater market share in the Japanese market than is currently the case?

Mr. **Olmer**. If we were successful at achieving our negotiating objectives it would make an enormous difference to the opportunities available to American companies which is to participate in international trade. And, as you know, only 10 percent of the output of our telecommunications industry is exported not only for reasons of market closure and preferential procurement, and so on, but because of the enormity of the American marketplace.

But we would have, for our industry, achieved a substantial success if we achieve our negotiating objectives. And I'd like to point out that we did not get these negotiating objectives out of a dark closet or whole cloth. They were constructed with the cooperation, understanding and agreement of our industry.

Mr. **Florio**. The difficulty that we've got—and in your prepared statement we go through some of the market objectives—the difficulty that we have is that the mere pronouncement of achieving the market objectives is one thing.

The experience, particularly with our Japanese trading partners, is that one can pronounce the objectives that have been obtained and the implementation of the objectives. Somehow the end result never gets achieved.

I think you've put your finger on it in some respects by saying that the concepts are different. They are in the process of deregulating as they understand it. But the cultural or the economic perceptions are extremely different, and that's not going to result in any, again, bottom line achieving of market share.

I would like to read to you just a statement from a letter dated March 21 from the head of the Electronic Industries Association, International Telecommunications which was sent to Secretary Baldrige and Ambassador Brock. I think this paragraph states what the apprehensions of some are.

> While a nondiscriminatory legal and regulatory structure is an essential prerequisite to expanding U.S. market opportunities, the degree of true opening of the Japanese market can ultimately only be measured in terms of increased U.S. sales of company equipment as a percent of total telecommunications equipment purchased in Japan. Therefore, the industry continues to feel that only a positive action program on the part of the Japanese will result in substantially increased sales for American companies.

I think therein you're seeing a view of an attitude that has started to dominate more and more our perceptions of the relationships between the two countries, that you can go and achieve your objectives. Everyone will sign on to the statement of those objectives but those objectives will be thwarted by the implementation practices and policies and mentality that prevails in Japan.

The only true test is how much penetration are you going to achieve. And the only way you can foresee achieving that is by having, as it's described here, a positive action program.

I suspect that means almost set-aside concepts, guarantees of access. I ask what your view is to the two points, and whether you think there is some validity in trying to negotiate for positive action programs and is the cynicism that seems to be manifesting itself in this letter justified that you can achieve the objectives on the April 1 that you've been negotiating for?

And that certainly is no assurance that you're going to get better market share.

Mr. **Olmer**. I'd divide the landscape into three parts. One, the question of whether we achieve our negotiating objectives by April 1 or in the immediate days thereafter. And that would be a significant victory for us and the Japanese consumer, mind you, if we were successful.

The second part would be whether or not, having achieved these objectives, they were faithfully implemented up and down the regulatory system in Japan.

Mr. **Florio**. In light of the previous experience.

Mr. **Olmer**. In light of the previous experience. And I think that with a sustained push by the United States Government, by the Japanese Government at the upper levels, and by an informed Embassy staff which we do have in place, there's some reason for believing we could do that.

But the third part comes to the point that you made.

Mr. **Florio**. Positive action programs.

Mr. **Olmer**. Well, having achieved the negotiating objectives and having achieved commitments to faithfully implement those objectives, will it make any difference? And I am not yet absolutely sure that it will because I share the judgment of the business community that it is only measured in terms of sales of U.S. goods and services that success can be measured.

But those sales can't happen overnight. They simply can't. It will take time to develop experience. We have reason to be—I wouldn't say cynical, but we have reason to be cautious about it.

I'd like to say a word about this so-called Positive Action Program. I think maybe it is just that, PAP.

A couple of years ago, one part of the industry advanced the notion of affirmative action by the Japanese. And what they really meant was that the Japanese should be forced by the United States Government to purchase equipment, telecommunications equipment, from United States suppliers almost irrespective of whether the equipment was suitable for use in the Japanese marketplace at all.

I rejected that notion then and I continue to do so today despite the seriousness of my concern for this industry and the relative intransigence of the Japanese historically in this area.

Our experience at deregulation telecommunications is a fairly recent one. It wasn't that long ago that people in the United States did not like the idea of loss of an operator when lifting your receiver off the hook.

We have adapted very quickly and in the last 2 years, that adaptive process in the United States has turned into a gold mine for Japanese companies. I was informed yesterday by a senior member of the United States industry that Japan has about 40 percent market share of the private branch exchange equipment of PBX's sold in the United States.

And that one of the regional Bell operating companies purchases about 50 percent of its procurement requirements from a single Japanese supplier. And that has happened in roughly 18 months. That's an astonishing measure of Japanese aggressiveness and, more importantly to my point, the openness of the American marketplace. And that's the point we've been trying to hammer home again and again to the Japanese.

If you would like, Mr. Chairman, I could try to give you an example of the philosophic difference in deregulation. I don't want to take too long in responding.

Mr. FLORIO. No, please.

Mr. OLMER. We have a standard that the FCC applies in what is called, I think, part 68, definitions of FCC rules and regulations that establishes "harm to the network" as the single criteria that should govern the acceptability of a product.

And harm to the network is defined by the FCC as that which would cause injury to people or equipment, or that which would degrade the service, the telecommunications service, to other than the immediate parties. That is the person who initiates the telephone call, or whatever, or the receiving end.

The Japanese side rejects the notion of that single standard. It believes that the Ministry of Post and Telegraph has an affirmative responsibility to safeguard the consumers' interest in Japan. That is to say to permit the introduction of new technology at a rate it determines is desirable for the people of Japan.

Well, that doesn't sound so bad except when you begin to examine the kinds of factors that go into the composite known from their point of view as a broader definition of harm to the network because some of it, if we were required to adhere to those standards would necessitate the reengineering of American telecommunications and services for no reason that relates to the provision of services in the United States, it causes no harm; it doesn't blow the network up; it doesn't degrade anyone else's service.

I have been working very hard to communicate the importance we attach to the principle of harm to the network as a sole criteria. I wish I could tell you I have succeeded. But again, it is not yet the 31st of March and I haven't given up.

It's an important one of about a dozen different objectives that we've laid out for ourselves, and many of them are very technical, some are not. But that one in particular, I think, goes to the heart of the different concepts that the Japanese Government, or at least that ministry, which oversees this deregulation process—which they take.

Mr. **Florio**. Before yielding to the gentleman from Ohio, could I just ask for a brief response to this most recent development in the newspapers today about the Japanese intention to limit automobile imports or exports from Japan here allegedly to the full extent of their production capacity.

Is that regarded as what it was that the administration hoped for?

Mr. **Olmer**. Absolutely not. A statement was issued by the White House last evening which I think went directly to the point you asked me to address. I wish I had a copy with me. It said basically that this was not requested by the United States. And, in any event, it should not be interpreted as satisfying our objective of opening the market.

We are not asking for a guarantee of a specific amount of sales of any kind of equipment or of services. We want the Japanese to provide our suppliers with the kind of opportunities and free access which we provide to Japanese suppliers in this market.

And we don't want to see, we didn't intend to see, and we don't appreciate seeing the linkage that some would draw including, I gather, some in Japan would draw from this announced limitation of 2.3 million automobiles next year.

Mr. **Florio**. The gentleman from Ohio.

Mr. **Eckart**. Mr. Olmer, I wish you good luck. I admire your efforts to date. And everything I now have to say is not directed against you.

I just returned from Japan, which does not make me an expert, sir. I'm quick to point that out. But you know I'm mad as hell and I'm just not going to take it any more. Let me tell you what the underpinning of that is.

We continue to hear stories of MITI end-running an agreement that we thought we had with them concerning patent and copyrights. And, in fact, MITI may be continuing to push for legislation affecting software that may transcend the deal we thought we had with them.

Can you advise this committee as to what you understand is going on in software patents and copyrights?

Mr. **Olmer**. My understanding, as of three or four days ago, was that MITI has agreed to accept the U.S. position. So I would count that as an apparent victory.

Mr. **Eckart**. Because that had not been the case, I guess just as recently as a week or two ago, is that right?

Mr. **Olmer**. I will confirm it for you, Congressman. I've been immersed in the telecommunications dialog. But I was informed that we had the effect of success in the software area. And I've not been told otherwise. So I accept that.

Mr. **Eckart**. It's something apparently that's been bouncing back and forth. Let me focus on some of the telecommunications issues.

One of the concerns that I have is that they're having some success in dealing with us in nontariff barrier ways, focusing exclusively on testing, certifying and standards.

From this gentleman's purely selfish perspective, please convey to our friends that if we do not achieve some victories there, I can assure you there will be attempts to impose similar testing, certifying and standard procedures here.

And as your boss, the Secretary of Commerce, has said, I would support those efforts because I think they're double-dealing us on testing, certifying and standards. And if that helps you, God bless you.

I think they have ingenuous ways to keep the NTT market closed to us, Mr. Secretary. I mean, I don't know if you want to comment on that or not. But Mr. Baldrige's statement of, I guess, 6 or 8 weeks ago—and you're alluding to them from time to time—I want you to understand that I support that.

And they best understand that we're not necessarily talking about quotas or guaranteed shares of markets or the like.

But also involving American business people in the division—the devising of those standards is very important to us because our friends over there hire wonderful lobbyists here to petition our Government and our industries to participate in the standardmaking process here. And we can't get within a hundred miles of them over there.

Mr. **Olmer**. The good news first. We have an agreement in telecommunications that the Japanese side will accept a type approval. They will accept a United States supplier's certification that the product meets the Japanese standard and will not require the presentation of the product, itself, and its examination.

That is a very significant accommodation to our requirement.

The bad news is that the nature of the standards go well beyond what I indicated earlier as our standard of harm to the network. And we're continuing to have difficulty in that respect. And it could render a near nullity the achievement of some success.

Mr. **Eckart**. What they give us with their right hand they take away with the left.

Mr. **Olmer**. As regards the ability of foreign companies to place Japanese nationals on standard-setting bodies, we have some reason for hope that we will achieve some success. But at this point it's a little early for me to certify.

Mr. **Eckart**. Clearly being a part of that deliberative process where we are now nearly virtually shut out, I think it would be helpful to American businesses.

Let me ask you in your briefing to the Cabinet Trade Task Force, I guess it was a week or two ago, what was their reaction to our current situation. If you could advise us as to what the reaction was.

Mr. **Olmer**. Well, I think that—I don't think, I know that the concern is shared throughout the administration of the importance of these market-opening measures. And that we must achieve roughly reciprocal access to the Japanese market that we provide Japanese suppliers in this market.

And that is a major, major advance in trade policy. I call it an advance. Others may say something else. But the administration is one in this respect, is one voice in this respect.

Mr. ECKART. Mr. Chairman, this would be my last question. Is there any prospect at all of the administration self-initiating a 301 petition or case against Japan?

Mr. OLMER. It is clearly an option which Congress intended to provide the administration. And it is available in there.

Mr. ECKART. Do you look for our encouragement?

Mr. OLMER. Frankly, Mr. Eckart, I believe that the seriousness of this problem has reached a level of intensity within the administration that further encouragement beyond what the Congress has already said on this score is not truly necessary.

Mr. ECKART. Thank you. I thank the Chairman.

Mr. FLORIO. The time of the gentleman has expired.

Mr. Secretary, we're going to vote. We have to take a recess for approximately 10 minutes.

[Brief recess.]

Mr. FLORIO. The subcommittee will reconvene.

We will not submit a bill to the administration for use of our facilities for press conferences.

Mr. Coats is on his way back here. While he's on his way we will just follow up on Mr. Eckart's question.

Do you think an industry-initiated 301 action would in any way enhance the leverage the administration might need in negotiations with the Japanese?

Mr. OLMER. Mr. Chairman, I fully believe the Trade and Tariff Act of 1984 provides sufficient authority to deal with this problem. And that an industry-initiated petition at this point would not significantly advance this.

Mr. FLORIO. Not to be disrespectful, but that authority has been there. We have seen dramatic changes in the trade balance. The authority hasn't been used in the past. The Congress responded to that lack of use last year in the trade bill and gave the President even more authority.

And clearly, the trade and services provision of last year's trade bill gave the President the authority to utilize the various agencies. And that's not being done. The patience of the country, I suspect—but I certainly know that this Congressman and other Congressmen—is running out. And the response that there is that authority in there for us, that there's no need for further legislative authority, while truthful, is the cause of frustration.

Mr. OLMER. The new act, however, provides a clarification as to the intent of the Congress and expands the Presidential authority specifically in areas that clearly directly relate to telecommunications. And it provides specific measures that could be taken in the absence of actions deemed appropriate to solve our problems such as the denial to foreign applicants of access to that particular sector; the denial of licenses to operate, and so forth.

Mr. FLORIO. We know that because we put it in the bill. The difficulty is that, first and foremost, there are some who are advocating that should almost be agency-initiated, the FCC going one way, ICC the other. I don't agree with that and don't think that's the intent of the bill.

But if that's not going to happen, and we don't want it to happen in that way, it's got to come out of the President's operation that he gives directions to these people. And that doesn't seem to be coming.

Mr. **Olmer**. Well, he did give very specific directions to Secretary of State Shultz and that has initiated a process very soon after January 2 in the four sectors that we talked about at the beginning: electronics, pharmaceuticals, medical equipment, forest products and, finally, telecommunications.

We have mounted an intense effort in telecommunications for two reasons, the most prominent of which is this April 1 initiation date for the Japanese legislation.

Mr. **Florio**. Frankly, though, I'm troubled when we utilize the State Department as the major catalytic factor here, because there's a dual agenda. The Commerce Department is primarily concerned about the economic ramifications of these decisions, and in the history of all our trade questions, whenever we give the primary responsibilities to the State Department, they are concerned about other aspects of their jurisdiction rather than the commercial aspects.

So if you're telling us that we should feel comfortable that the Secretary of State is somehow communicating these concerns, I, for one, don't feel very comfortable.

Mr. **Olmer**. I think you should be. He has made it abundantly clear. And in the interagency process that has evolved with people at lower levels of the State Department, I have seen no evidence whatsoever of an unwillingness to come to grips with the seriousness of this problem and to develop measures appropriate to its solution.

Mr. **Florio**. I recognize the gentleman from Indiana.

Mr. **Coats**. Thank you, Mr. Chairman.

Mr. Olmer, pursuing the line that was talked about a little bit earlier on some of the specifics of these agreements, it is my understanding that the United States redefined the term, equipment, in a pretty broad way which allows the foreign manufacturers to fall in the "no harm" category fairly easily.

What is the situation in Japan? I have been told that they define it much more narrowly than we do. So isn't it possible that if your answer is yes, that even an agreement which would allow us, at least on paper, to compete in certain areas, might exclude certain types of equipment that could be hooked at the end of the telephone line but wouldn't necessarily be clarified in Japan as terminal equipment?

Where are we on that?

Mr. **Olmer**. We're on top of it. And it is certainly our intent, and the Japanese are aware of it, that we would include the same kinds of equipment in what we consider necessary to be incorporated within the ambit of harm to the network as the sole criterion for judging this.

Mr. **Coats**. Does that include cellular telephones?

Mr. **Olmer**. It does not yet include cellular telephones because they are regulated by different standards. Besides which the cellular telephones—that's why we have been talking about analog only. The Japanese do not believe there will be a digital telephones system for 10 years. We think it will be here much sooner than that.

Our industry—part of the reason why we believe and they believe it will be sooner than that. We're working on including that but we have not yet had an agreement from the Japanese.

Mr. Coats. Does that mean, though, that the industry can't currently sell United States digital cellular telephones in Japan?

Mr. Olmer. You mean as a function of the regulatory system or as the function of its——

Mr. Coats. Yes.

Mr. Olmer. My understanding is that there are American suppliers of cellular telephones that have been making an effort and have achieved some degree of success. But you would have to ask them whether they're satisfied with the rate of progress.

And you would probably would have to make an examination of the level of effort they have expended relative to the degree of success they have achieved as to whether or not the cost-benefit is reasonable or not.

But I can tell you that some have had some success. I know that for a fact.

Mr. Coats. In the same vein, the United States and foreign companies can build, as I understand it, and operate long-distance fiberroptic telecommunications networks without governmental approval. In fact, I think a number of foreign companies are already doing that in this country.

What is the situation in Japan in regard to that?

Mr. Olmer. You mean whether or not a foreign supplier could become a common carrier in Japan?

Mr. Coats. Own the facility.

Mr. Olmer. They own to 33⅓ percent.

Mr. Coats. Up to 33⅓ percent? What is it in the United States?

Mr. Olmer. We have limitations on broadcasting, you know, for an ownership of broadcasting.

Mr. Coats. Just being a common carrier? Are those questions part of your negotiations?

Mr. Olmer. No, sir.

Mr. Coats. Would it be on the agenda? Are you considering making it a part?

Mr. Olmer. Frankly, the volume of regulations that go to the implementation of the new law on April 1 has been so immense that we have concentrated primarily on what the Japanese call a type 2 telecommunications service which is over and above or beyond and separate from common carriers.

We have not excluded common carriers, but we have not gone to the question of the limitation of 33⅓ percent on foreign ownership except insofar as certifying an engineer from the United States as adequate to service an American who might have with the 33⅓ percent controlling interest in a common carrier.

So we've got it in a somewhat indirect way. But we have not attacked that problem squarely. And as I say, simply, the enormity of the doctrine that has been put together for the type 2 services which we believe are the largest single market opportunity for American suppliers. And that's where we focused our time.

Mr. COATS. If I could pursue one more line with you before my time is up.

You earlier, I think, alluded to the fact that the administration doesn't need any additional help from Congress. That you have the message and that there are a number of steps that at which you are looking.

If we could pursue the legislative question for just a minute. Would you be more inclined if legislation were introduced, and do you believe that the administration would feel that that legislation should be directly related to the problem? That is to say, if we are denied access on telecommunications, we reciprocate with action, whatever it might be, regarding telecommunications?

Or do you see a broader piece of legislation which would impose other penalties or restrictions or incentives?

Mr. OLMER. If you would permit me, Mr. Coats, to perhaps modify somewhat whatever response I gave you to cause you to conclude I don't think anything additional is required by Congress, I testified a few weeks ago before Senator Danforth's committee and I indicated that I felt that the telecommunications bill he had worked on before Congress adjourned last year was worth looking at.

And that although the administration last year had indicated it could not support it in its present form, we would like to—if he was considering reintroducing it—work with them.

That goes to the issue of reciprocal treatment and it would go beyond sort of the general thrust of the expanded 301 authority provided in the 1984 Trade and Tariff Act.

So I guess what I'm saying is there is room for some things to be done that would, in effect, set a standard by which we choose to be measured and by which we will measure the performance and conduct of our trading partners.

Mr. FLORIO. Will the gentleman yield a moment?

Would that also include the possibility of import surcharges with sliding scales, a reduction of the surcharges upon the achieving of the type of standards and goals that you're talking about?

Mr. OLMER. No, sir.

Mr. FLORIO. The difficulty is not so much our ability to set standards, it's the ability to get them enforced. To this point it's been negotiations in the hope that someone would voluntarily change policies to allow these things to be achieved.

Quite frankly, I sense in the Congress the growing impatience and the need to get something done to induce compliance with the standards, however we decide what those standards of compliance are going to be—I don't want to characterize it as a club but I can't think of it in a better way.

So let me just ask if your response to Mr. Coats also would apply, there may be some need for legislative action to the suggestion about surcharges and the implementation of such a system with the expectation that they would be reduced or eliminated upon achieving capable or adequate market penetration?

Mr. OLMER. Mr. Chairman, I do not believe in the efficacy of import surcharges as a means of solving our problems. I think that even when dealing with the specifics of one sector, it is terribly important to look at the potential ripple effect of retaliatory measures.

And that was one of our major difficulties last year with the Danforth bill and our inability to support it as drafted, that it would likely trigger a variety of counterproductive consequences that would impact on other industrial sectors or other sectors, period.

And for that reason, I would not want to see a sliding scale of import surcharges included as a retaliatory measure in any kind of reciprocity legislation or telecommunications equivalency legislation or the like.

Mr. FLORIO. Thank the gentleman for yielding.

Mr. COATS. I thank the chairman.

When we conclude that surcharge type legislation might not be beneficial because it would invite retaliation, I just wonder at what point we cross the line where retaliation—the downside risk of the United States becomes smaller and smaller and the upside risk for Japan becomes greater and greater as the trade gap widens?

At some point I think we're going to conclude that retaliation isn't the threat or the weapon against us that we've been saying it would be. And if we don't use something like that, what do we do?

Mr. OLMER. Well, you have asked questions that I think stand equally as answers. Clearly, the frustration level has increased in intensity and in the number of people who share it.

On the other hand, Japan is a good customer of the United States for a number of products important to our economy not the least of which is roughly $7 billion a year in agricultural products.

The question of whether or not the Japanese Government would seek compensation for unilateral action on the part of the United States is a fair question to be asked. It could be that judgment of some that the Japanese have had such great success that they wouldn't have the gall to ask for compensation.

On the other hand, our major premise has been to refrain from market-restrictive measures and to work through a process in negotiation to achieve equivalent opportunities. And that's what we want to stick with at least for the period we have set for ourselves as a benchmark and that is April 1.

Mr. COATS. Well, my time is up. And if I could just conclude, I think it would be with the statement that our chairman's description of the attitude in Congress is generous. It's more than a rising perception. To me, it's going to be a stampede very, very quickly if we can't see some definite action coming forth.

Thank you, Mr. Chairman.

Mr. FLORIO. The time of the gentleman has expired.

The gentleman from New York is recognized.

Mr. LENT. Thank you, Mr. Chairman.

Secretary Olmer, I'd like to followup a little bit on this problem that you enunciated, of possible retaliation or, as you put it, a triggering of counterproductive forces at least in this area of telecommunications equipment.

I understand that we have a trade deficit of $608 million in the area of telecommunications. But I also understand that our bilateral trade with Japan is over $1.8 billion out of balance.

Is that true?

Mr. **Olmer**. In telecommunications?

Mr. **Lent**. Yes.

Mr. **Olmer**. Yes.

Mr. **Lent**. We are importing about $2 billion in telecommunications equipment from Japan and we only export $194 million, so that our net deficit is approximately $1.8 billion. It's also a fact, is it not, that if our bilateral trade with Japan were to be put in balance, we would enjoy a substantial global surplus in terms of telecommunications equipment.

Isn't that true?

Mr. **Olmer**. Oh, absolutely.

Mr. **Lent**. So that when we cast about here for a villain, if you will, certainly the imbalance with Japan stands out as against the imbalance we might be running with the Common Market or other industrialized country.

Now when we look at the General Agreement on Tariffs and Trade, the GATT agreements, the basic idea underlying GATT is that the participants should engage in a mutually beneficial reduction of trade barriers. And then, in return, for reductions in its own at-the-border restrictions each participating nation is to receive increased access to the markets of the other parties to GATT.

That's the theory behind it. Is that correct?

Mr. **Olmer**. Yes, sir.

Mr. **Lent**. It would seem to me, and one of our other witnesses this morning is going to underscore this point, that at least in the telecommunications sector it is quite evident that the basic concept of the GATT is simply not being applied. We have removed all our barriers unilaterally but we haven't received anything in return.

Therefore, my question to you is what constitutes unreasonable foreign behavior for the purpose of the Trade and Tariff Act of 1984? What do we have to find the other fellow doing before we step in and take some action under section 301 and other provisions of that law?

Mr. **Olmer**. Well, that's, of course, the key question, and the concept of "unreasonable" was addressed in the act. It is essentially my understanding that it is a restraint to access to the marketplace.

Mr. **Lent**. The denial of fair and equitable market opportunities to American companies.

Mr. **Olmer**. And that's what we're working on today with the Japanese.

Mr. **Lent**. Is there any other American industry that we might be concerned about in this committee where the denial of fair and equitable market opportunities abroad is any more pronounced or any more evident than it is in the area of telecommunications equipment?

Mr. **Olmer**. When we talk about telecommunications as an industry, we should recognize we're talking about more than just telecommunications equipment. We are talking about a range of services that go along with it. And, indeed, that is one of the major market opportunities that the Japanese are theoretically opening up to foreign suppliers.

But there are other industrial sectors where we have not enjoyed the kind of equal access to our marketplace.

Mr. **Lent**. Can you just give us an idea of what they are?

Mr. **Olmer**. Well, agriculture is one; electronic products outside the telecommunications area is another. We have, as one of your witnesses I believe originally said, become essentially a developing country with respect to Japan.

We supply raw materials and food products and we receive manufactured goods. That is a basic problem and the root of some of the things we are trying to get at today.

Mr. **Lent**. What effects do you think the result of the negotiations concerning telecommunications will have on other negotiations with Japan in the areas of wood and wood products, electronics, medical equipment, and so forth?

Mr. **Olmer**. I would like to believe that if we achieve success in telecommunications that we will gain not only support from the Japanese Government to achieve similar success in other industrial sectors, but that the consumers in Japan will see that they, too, are being benefited by liberalizing market opportunities.

But—and it's a large "but"—the fact of the matter is some of those sectors, such as forest products, have completely different political constituencies. And it would not be realistic to expect a transfer of the recognition of the beneficial effects of an open market from telecommunications to an unrelated industrial sector.

There may be some in the telecommunications vis-a-vis medical equipment or electronic equipment, but I doubt that it will happen in the agricultural-related areas.

Mr. **Lent**. You mentioned that the administration has concluded an agreement with Japan to provide for the elimination in both countries of tariffs on semiconductors. In effect, does this agreement provide the United States' semiconductor industry with access to the Japanese market or are there other inhibitors which cause the Japanese market to remain, in effect, a closed one?

Mr. **Olmer**. That authority and that negotiation were both highly desirable. But the short answer to your question is in and of themselves, it will not provide a substantially increased market sale of semiconductors from the United States. It will not.

Mr. **Lent**. Mr. Chairman, I have no further questions. I would ask unanimous consent that my opening statement be placed in the record.

Mr. **Florio**. Without objection, so approved.

[Mr. Lent's opening statement follows:]

Opening Statement of Hon. Norman F. Lent

This morning the subcommittee will be looking into the trade problems which the U.S. telecommunications industry is facing. During 1984 the United States had a trade deficit of $608 million in the area of telecommunications. Although the U.S. market is open to all manufacturers, the U.S. telecommunications industry is finding barriers to their attempts to enter foreign markets.

I am pleased to see that Mr. Olmer is here today. I know he has been involved in diligent negotiations with the Japanese. These negotiations are particularly crucial as the U.S. trade deficit in telecommunications with Japan in 1984 was $1.8 billion.

During the 98th Congress the Trade and Tariff Act was passed and signed into law. This subcommittee played an active role in the portion of that bill which addresses the service sector. Specifically, authorization was given to the President to deny foreign services sectors access authorization to the United States.

I appreciate the appearance of all the witnesses this morning and look forward to their testimony.

Thank you, Mr. Chairman.

Mr. **Florio**. The gentleman from New Mexico is recognized for 5 minutes.

Mr. **Richardson**. Thank you, Mr. Chairman.

I, too, wish to share the concern of many of my colleagues. Just getting up this morning and reading about the voluntary restraint response of the Japanese in the auto market, 25 percent, has just brought home the whole issue of how seriously Japan wants to cooperate with the United States. How friendly are they in the economic arena? Are they the great responsible ally that they've been over the years?

It seems to me that they are greatly taking advantage of our generosity, our lack of will, whatever it may be.

And, Mr. Olmer, you're in a very difficult position here sitting before us. The timeliness of your being here after a decision like that is not fortuitous for you.

The issue, as I see it, is what are the prospects of the immediate access of our telecommunications equipment? You've talked about long range and I noticed you used the word "probable effect."

What is the future of immediate access of our equipment? Are we talking about while a new trade Presidential term, or what's the timing in the immediate access issue?

Mr. **Olmer**. Well, what we're looking at is immediate access immediately.

But the effect of having it will not be reflected in sales for some time to come. There was a government procurement agreement undertaking initially in 1979 and renewed a year or so ago with the Nippon Telegraph & Telephone. And we have made only marginal progress as reflected in the sales experiences of American companies.

There are market inhibiting factors that have prevented that or made it less likely. I suppose both; made it less likely and, in some instances, actually prevented it. And we're trying to eliminate those now.

We have moved to, I guess you could say, a more sophisticated level of negotiating in an attempt to strip away what we call "all barriers." And I guess one of the things I wanted to point out earlier, and didn't have a chance to, when I said that there's a fundamental difference in the trade policy objectives, we have historically asked for national treatment; that is, do unto our suppliers in your marketplace as you do to your own.

Don't treat Americans in Japan any differently than you treat——

Mr. **Richardson**. Mr. Olmer, how can you say that when the record is so dramatically different? How can you justify that?

Mr. **Olmer**. Well, what I'm about to say is probably going to excite you further. That we have altered that as an objective because we've said that's not sufficient. It is not enough to merely provide an unbiased treatment to Americans.

Mr. **Richardson**. Those are words. Those aren't deeds.

Mr. **Olmer**. I don't know that I'm making my point to you, Mr. Richardson.

Mr. **Richardson**. No, you're not.

Mr. **Olmer**. If you will let me finish my sentence I'll try harder. What we're asking the Japanese for now is to provide us with equivalent opportunities; that is to say, give our suppliers in Japan not merely what you give your suppliers in Japan, but what we give to Japanese suppliers in our market. That's a fundamental alteration of trade policy objectives over the years.

Mr. **Richardson**. Mr. Olmer, those are words. I mean, I can produce a piece of paper that looks very good. But if you don't back it with deeds, if you don't link it to other issues in the United States-Japan relationship—if your went in there lifting restraints on autos knowing it would be 25 percent—my God. I mean, do you think the Japanese are going to take us seriously with this noble on paper policy that you have? I mean, how can you sit before us here and tell us that, that your policy is protective of the American people and the American industry telecommunications industry, auto industry?

How can it be considered an equitable trade policy. I don't understand. I mean, it's just beyond my comprehension that we are reaching a stage when protectionist legislation in the Congress—I have noticed in the last few days it's rising enormously.

And you come back to me and tell me that this is your posture. The issue is that if the Japanese don't agree to do what you just said, what are you going to do? What are the hooks? What's the carrot and stick, what it the linkage?

Mr. **Florio**. Will the gentleman yield just for me to identify what the gentleman's obvious frustration is? And just, for example, to amplify a point you said, you're looking for more sophisticated trade relationships?

I'm suggesting to you it may be time to look at less sophisticated trade relationships. It has been brought to my attention that Nippon Cargo, the Japanese air freight carrier, is now before the FAA seeking approval for landing rights here in the United States.

The obvious linkage—does this type of negotiating go on in the course of your discussions with the Japanese? In fact, it's literally a quid pro quo type of understanding that we have put on the table that all of this is related, and that it is not merely sufficient for people to start agreeing. It's almost got to be a horse-trading situation.

Mr. **Olmer**. I agree with you.

And while that issue has not been on my platter of issues, and I've tried to confine it to telecommunications only, it is clearly a matter of balancing interests on both sides, and it ought to be undertaking because of the comprehensive nature of our trading relationship.

Mr. **Richardson**. Does the President of the United States accept the telecommunications decision of the Japanese? When they met recently, was this discussed?

Mr. **Olmer**. What decision, Mr. Richardson?

Mr. **Richardson**. I'm not talking about a decision. It's a longstanding policy of literally denying access of any of our telecommunications equipment. Was this part of the auto decision? Was this part of the go/ahead, lift the restraints?

I mean, if you're saying this isn't on your platter, whose platter is it on?

Mr. OLMER. What is not on my platter?

Mr. RICHARDSON. Aren't you the Under Secretary of Commerce?

Mr. OLMER. That's what I thought.

Mr. RICHARDSON. You're not involved with trade with Japan? Is telecommunications just your platter?

Mr. OLMER. Mr. Richardson, if you will permit me, I will take you from square 1 to square 12.

Beginning in January of 1985, the President of the United States met with Prime Minister Nakasone, and they mutually agreed to identify four industrial sectors for rounds of successive intense trade negotiations in order to provide our suppliers with equivalent opportunities in the Japanese market, that we provide Japanese suppliers in our markets. I have been put in charge of the sector dealing with telecommunications.

That telecommunications negotiating effort is coming to a near close with the anticipated implementation of a Japanese law that will privatize their telecommunications industry. That takes place on April 1.

Because it is April 1, there is a clear benchmark by which success can be measured. We have had very elaborate, detailed negotiating objectives. We intend to stick by them as a means of measuring whether or not, through the regulatory process, we can say to our industry and to you and others in the Congress have expressed themselves, I think, quite articulately and forcefully on the subject—that we have achieved relative equivalence, that American suppliers in Japan will be given the same kind of opportunities that Japanese suppliers are given in the United States.

I don't think that's a frivolous objective, and I think it is an enormous achievement, if we can make it. And the President clearly started it off on January 2, when he met with the Prime Minister in Los Angeles.

Mr. RICHARDSON. Well, I must be smoking dope, because I've been reading some of the testimony of telecommunications people, and there seems to be a very wide gap in what I'm hearing them say and what you're telling me right now.

Mr. OLMER. Well, I'd be happy to share with you letters that have been sent to me and others in the administration in the last month, when I have asked all and sundry in this widespread and wonderful American telecommunications industry, "What do you think of our negotiation objectives? What do you think we ought to measure success by? Will you tell us what you think of what we've done so far?" And every cotton-picking, chicken-plucking last one of them has said, "You're doing great. Do more. Your objectives are laudatory."

Mr. FLORIO. If the gentleman would yield, let's assume for a moment you achieve your objectives. How long down the road do you expect it to be before we can make a reasonable determination that the objectives are being implemented and market share is changing to a way that would be acceptable?

Mr. OLMER. I guess what I'd do is, by example, point to the NTT agreement. We have asked the Japanese for consultations because of our dissatisfaction with the rate of implementation of what appears superficially to be an equivalent market opportunity process.

Mr. FLORIO. The agreement was agreed to when?

Mr. OLMER. Originally in 1979, and it has been renewed at least once. The dates momentarily escape me, and I apologize for that. But Ambassador Brock has asked for consultations. The Japanese will be coming to talk about the inadequate recorded sales by American companies in the NTT procurement process.

Mr. FLORIO. The difficulty, of course, is the people in the audience and the people in the country don't want to be in a situtation—you say 1979, and it's now 1985—6 years after we achieve this success, after negotiation of the principles, saying, "Well, the principles haven't been implemented." But that time, I think you would agree, the telecommunications industry is one.

Mr. OLMER. I understand your point.

Mr. FLORIO. I thank the gentleman for yielding.

Mr. RICHARDSON. I just want to close, and I think the issue here is not necessarily one of objectives. We all have the same objectives. It seems to me, the question is results and sales, and what do we do if the Japanese tell us to take a hike again, as they've been doing on every issue in the last 3 years.

If I were the head of MITI and the Secretary of Trade, I'd be laughing at us.

Mr. FLORIO. The time of the gentleman has expired.

We are pleased to have the chairman of the full committee, Mr. Dingell, the gentleman from Michigan.

Mr. DINGELL. Thank you, Mr. Chairman.

I commend you for an extremely timely hearing on these important problems, particularly the telecommunications problems that we have with Japan. We've faced it for years with foot-dragging on the part of Japan in its failure to open its markets to United States products.

Japanese protectionism, in all forms, especially nontariff barriers, has cost the United States, its industry and its people, dearly. And record trade deficits now threaten to significantly erode or destroy our industrial base.

We are engaged in another round of negotiations, and I am particularly pleased to see Mr. Olmer here to discuss that, because I believe that that can be important to us.

Mr. Olmer, welcome to the committee. In your comments today, you said we have made some progress during the telecommunications discussions. I observe that a list of goals was put together, entitled "U.S. Government List of Issues To Be Resolved Regarding Telecommunications and Trade Issues."

Mr. Chairman, I ask unanimous consent that that document be inserted in the record in the appropriate place.

Mr. FLORIO. Without objection, so ordered.

[Information to be furnished follows:]

Tokyo
March 13, 1985

U.S. Government List
of
Issues to be Resolved
Regarding
Telecommunications Trade Issues

Nine issues remain to be resolved regarding telecommunications trade issues between the United States and Japan. There are four criteria for success in resolving telecommunications issues. These criteria are based on the following principles:

1. Elimination of the discretionary authority of officials who will implement the system for regulating telecommunication services and equipment.

2. Limitation of technical standards and requirements to those necessary for protection against harm to the network.

3. Guarantee against discrimination between foreign and domestic suppliers.

4. Assurance of the transparency, integrity and independence of procedures for registration of telecommunication services, equipment approval and appeals.

ISSUES TO BE RESOLVED

1. Elimination of a prior registration and approval process for "Special Type II" business services: treatment of this kind of telecommunications service should be identical with treatment accorded to "General Type II" business services (i.e. prior notification by the applicant that standards have been met but no bureaucratically controlled review process prior to approval which includes disclosure of proprietary business data).

2. Elimination of arbitrary criteria applicable to "Special Type II" business services: removal of criteria that have no technical relevance but would make participation by American suppliers more difficult (i.e. now a telecommunications business service becomes "Special" if:
- (1) it is linked in any way to an international terminal;
- (2) it has "many and unspecified" users; and
- (3) its capacity exceeds 500 lines and 1200 bits per second).

3. Foreign suppliers must be authorized to "self certify" that their equipment meets Japanese technical standards and requirements, and the equipment should be subjected to no further examination.

4. Adoption of a regulatory basis for approving "customer-premise equipment" (CPE) that permits attachment to all telecommunications networks so long as the "customer-premise equipment" will not "harm the network".

5. Establishment of a single independent agency for approval of all telecommunications equipment for all telecommunication networks from all prospective suppliers, including the Nippon Telegraph and Telephone Corporation (NTT). NTT should not be involved in approving the equipment of foreign competitor firms, nor should members of competitor Japanese companies be involved in equipment approvals.

6. Selection of foreign experts to participate on the Telecommunications Advisory Council which will consider and make recommendations regarding new and existing telecommunications regulations.

7. Foreign suppliers must be given the opportunity to comment on proposed administrative procedures, standards and rules of certification systems far enough in advance so that their views are given adequate consideration prior to the implementation of new administrative procedures, standards and certification systems.

8. An appeal process external to the Ministry of Posts and Telecommunications, so that complaints of discrimination can be reviewed and action taken promptly.

9. Establishment of safeguard procedures to prevent cross-subsidization by NTT of any telecommunication business services it may provide after April 1 when NTT will be split into partially-government and partially-private entities.

Mr. DINGELL. Mr. Olmer, there are items 1 through 4, which identify U.S. negotiating goals, followed by the specific issues to be resolved, which number nine in toto. I gather that you have filed a report with the administration indicating that no success has been achieved as of that date, which I gather was within the last week or so.

Can you submit to us that document, so we can see what you have been reporting in the way of success?

Mr. OLMER. Chairman Dingell, I think that I can do perhaps even better than that. The Japanese Government has has a delegation in Washington for the last 3 days. They were due to depart this morning. I asked that they remain one more day. I will, by the end of today, have compiled a scorecard on the objectives and the overview criteria and the goals.

Mr. DINGELL. I think those would be very useful, an I commend you for that offer and the action which you have taken.

Mr. Olmer, could we have, however, the document that you had submitted which indicated the level of success that we had been achieving in those undertakings?

Mr. OLMER. Well, what I was suggesting, Chairman Dingell, is that by the end of today, we will have concluded the negotiating, and what you will get is a final document. Those documents are going to be made public by the Japanese, I'm advised, and they will undoubtedly be made public in the United States, and of course I will do my best to see that you get a copy before they are made public.

Mr. **Dingell**. Mr. Olmer, I have great respect for you and considerable affection, and I believe that you are a good public servant and that you are trying very hard. I have from time to time played paddleball in the House gymnasium, and when you are pressed with a particularly bad situation, the spectators will often observe that you are playing three men—the other side, plus your own partner.

I observe with some regret that you appear to be in that rather awkward position, that you are essentially playing two men. One is the Japanese, and one is your superiors in this administration, which diligently gives away every imaginable trading card that you might possess in terms of your undertakings and leaves you with pious expressions of good wishes, but with no significant support, and with no genuine pressure upon the Japanese.

Let me begin here the list of telcommunication trade issues to be resolved with Japan. Item 1: Elimination of prior registration and an approval process for special type 2 business services.

What is the progress on that, if you please?

Mr. **Olmer**. We have not, to this point, achieved success.

Mr. **Dingell**. All right. What is the success on item 2, elimination of arbitrary criteria from listed services, removal of criteria that have no technical relevance, but would make participation of American suppliers more difficult?

Mr. **Olmer**. We have not achieved success.

Mr. **Dingell**. Now item 3, foreign suppliers must be authorized to self-certify that their equipment meets Japanese technical standards and requirements?

Mr. **Olmer**. We have succeeded.

Mr. **Dingell**. We afford the Japanese that right in every undertaking in which they embark in this country, whether it be pharmaceuticals, automobiles, air pollution and environmental concerns, passenger safety, and also fuel efficiency and other requirements laid down by Federal statute, have we not?

Mr. **Olmer**. To my knowledge, yes.

Mr. **Dingell**. Item 4 says:

> Adoption of regulatory basis for approving customer-premise equipment, CPE, that permits attachment of all telecommunications networks, so long as the customer-premise equipment will not harm the network.

Is there progress there?

Mr. **Olmer**. Progress, but not yet success.

Mr. **Dingell**. "Progress, but not yet success." What does that statement mean?

Mr. **Olmer**. Well, it means that the single criteria of harm to the network on the Japanese side has not been accepted, but they have reduced the number of criteria by which acceptability is measured very substantially, nearly by half.

It is our view that that reduction is yet inadequate to achieve the objective.

Mr. **Dingell**. Is there any reason why less than 100 percent acceptance by the Japanese of this position by the United States would be satisfactory?

Mr. **Olmer**. Absolutely not.

Mr. **Dingell**. Item 5, establishment of a single independent agency for approval of all telecommunications equipment for all telecommunications networks from prospective suppliers, including Nippon Telephone & Telegraph Corp. NTT should not be involved in approving the equipment of foreign competitor firms, nor should members of the competitor Japanese companies be involved in equipment approvals.

What success there?

Mr. **Olmer**. We have achieved success.

Mr. **Dingell**. One hundred percent?

Mr. **Olmer**. One hundred percent.

Mr. **Dingell**. So you're telling us you have achieived 100 percent in Item 5, and on foreign suppliers self-certifying 100 percent there?

Mr. **Olmer**. Yes. But on the former—that is, the single agency—there does need to be certain implementing instructions written and reviewed by us, but there has been an acceptance in principle to adopt the single agency and to require NTT to submit itself to that agency's regulatory process.

Mr. **Dingell**. I observe that our success has been somewhat clouded by the fact that the Japanese will make splendid agreements with us, abate our concerns, and then move forward to assure that additional mechanisms will be laid in place to prevent the United States companies and suppliers from achieving success through additional burdens and additional hurdles that they will have to bear and overcome.

How are we to be sure that in each instance there will not be, as these negotiations go forward, situations where we will find that agreement is accompanied by almost immediate changes in other rules to provide a fresh supply of barriers for our industry to overcome?

Mr. **Olmer**. Eternal vigilance, Mr. Chairman.

Mr. **Dingell**. Now you have given me great concern, because the vigilance of these matters is not supplied by this Government. It is supplied by Amercian industry, whose capacity so to do is continually being eroded by the unfair trading practices of the Japanese.

Now item 6, selection of foreign experts to participate in a telecommunications advisory council which will consider and make recommendations regarding new and existing telecommunications regulations.

What success there, please, sir?

Mr. **Olmer**. There are two kinds of councils, one that develops technical standards, and we have achieved success with respect to that. The Telecommunications Advisory Council is sort of a policy level body, and it is my judgment that we will, in the near future, achieve success with that. That's a plus.

Mr. **Dingell**. What are the levels of success there, then, on each of them?

Mr. **Olmer**. Well, 100 percent of the first half, and the second half, if I can get out of here before the next plane leaves for Tokyo and the Vice Minister is still available, we're working on it today.

Mr. **Dingell**. We will try to hurry your departure, but you don't mind if we have a great deal of interest, particularly in view of the singular lack of success that has been achieved by those who participated in these undertakings prior to your entry into the lists.

And, you know, hope constantly springs anew. I have great respect and affection for you, and I anticipate great things from your labors. Your predecessors have not served so well.

Item 7, foreign suppliers must be given the opportunity to comment on proposed administrative procedures, standards and rules of certification systems far enough in advance so that their views are given adequate consideration prior to implementation of new administrative procedures, standards, and certifications.

What success?

Mr. **Olmer**. I'm not satisfied with the progress in that area, although some progress has been made. We're working on it.

Mr. **Dingell**. That means you are not successful?

Mr. **Olmer**. That means we're not successful.

Mr. **Dingell**. Item 8, an appeal process external to the Ministry of Post and Telecommunications, so that complaints of discrimination can be reviewed and action taken promptly.

What success?

Mr. **Olmer**. We have achieved success in the impending creation of an ad hoc committee.

Mr. **Dingell**. Ad hoc?

Mr. **Olmer**. Well, we're hopeful that there won't be any complaints. But there will be appointed parties that will include the representative from the U.S. Embassy, a representative as chairman from the Foreign Ministry of Japan, and only as a member, someone from the Ministry of Post and Telegraph.

Mr. **Dingell**. Ad hoc always means to me that it is informal, and it is without statutory or legal authority or jurisdiction.

Mr. **Olmer**. That's the part we're still working on. It has been——

Mr. **Dingell**. So if you have yourself an ad hoc body, an ad hoc body will be a body which lacks authority to deal with the issue. That indicates to me that what you have achieved to this date with regard to this particular concern is zero, not a hundred percent.

Mr. **Olmer**. Well, it clearly is not 100 percent, but we wouldn't expect the Japanese Diet to enact a law, even if the Government of Japan agreed that such a law was appropriate by April 1. We have got an agreement that there should be immediately created a committee composed of the members that I identified to deal with any problems that arise.

Mr. **Dingell**. I recall to you with some distress and regret the fact that many of our agreements with the Japanese have sounded very good, and the implementation of the agreements has not been forthcoming, either by Japanese industry, or by the addition of new requirements or different mechanisms, or failure of Government agencies or bureaucrats or the Diet itself to implement the agreement. And as a result, I would deal with the Japanese rather as I would deal with the Russians, and to expect that we would only have any faith in essentially self-executing agreements, as opposed to those which are contingent upon good faith or something of that sort.

Item 9 is:

Establish safeguard procedures to prevent cross-subsidization by NTT or an telecommunications business service it may provide after April 1, when NTT will be split into partially government-owned and partially private companies.

What success?

Mr. OLMER. Probably 100-percent success.

Mr. DINGELL. Probably? If you had said 100 percent, I would be comfortable. When you say probably, I all of a sudden find my level of discomfort rising to a new height.

Mr. OLMER. Let me try to bring you down a little, Mr. Chairman, from those heights.

Mr. DINGELL. If it is probably 100 percent, it may be 100 percent; it may be zero. What is the real figure here and why?

Mr. OLMER. Well, there has been an agreement that regulations should be imposed to prevent cross-subsidization. We have been given those regulations. We are in the process of evaluating their adequacy. But there is no disagreement with the ministry officials that cross-subsidization should be prevented.

Mr. DINGELL. So you have an agreement in principle, but you have nothing on paper.

Mr. OLMER. We do have some thing on paper. We have not concluded an evaluation of them, and I'm very reluctant to give you a certification pending that completed evaluation.

Mr. DINGELL. This tells me, if I interpret your testimony correctly, and I don't want to put words in your mouth, but items 3 and 5 of the nine U.S. negotiating objectives you have substantial success on. On the other, you do not.

Mr. OLMER. Well, I might go a little further in the extent of the progress, but not much more.

Mr. DINGELL. Mr. Olmer, could you submit to us the March 15 document that I referred to earlier, please, in addition to the other things that you have so kindly agreed to make available to the committee.?

Mr. OLMER. I'm not sure which March 15 document you are referring to.

Mr. DINGELL. That is a document which is similar to that from which I read, which defines the rather significant lack of success as of March 15 in our negotiations with the Japanese.

Mr. OLMER. I have no problem with making it available to you, Mr. Chairman. I will discuss it with Secretary Baldrige upon my return to the building.

[The information requested was not submitted to the subcommittee at the time of printing.]

Mr. DINGELL. Mr. Olmer, we try to get facts up here, and in doing so, we sometimes abrade the feelings even of those we respect. I wish you to know that no lack of respect or affection for you is in any way indicated in the comments which I have made today.

Mr. FLORIO. The time of the gentleman has expired.

Mr. Olmer, we will let you go on your way, but let me just convey to you the message which I think you take from these hearings that, though you or the administration may not be enthusiastic about legislative mechanisms designed to impose sanctions for failure to achieve access results, you should have the message that this Congress, as I read it, is very close to being on the verge of going forward with those types of mechanisms, including import surcharge mechanisms. Unless someone is able to report back to us at some point not only that the principles are agreed to, but some self-effecting mechanism is going to result from greater access, I am convinced that before this session of the Congress is out, there will be substantial efforts, and I think successful efforts, at least as to the legislative process—I certanily can't give any guarantees with regard to the executive branch—to impose actions of that sort.

But we do appreciate your participation today and look forward to working with you in the future.

Mr. Olmer. Thank you, sir.

Mr. Dingell. Thank you very much.

Our next panel of witnesses is composed of C. Travis Marshall, corporate vice president, Motorla, Inc., and Michael Borrus, deputy director of Berkeley Roundtable on the International Economy of the University of California.

Gentlemen, we welcome you to our subcommittee. We are pleased to have you. We appreciate your patience through the course of the morning. We would ask Mr. Marshall to proceed. As with all of our witnesses, your statements will be put into the record in their entirely. You may feel free to proceed as you see fit.

Mr. Marshall.

STATEMENTS OF C. TRAVIS MARSHALL, ON BEHALF OF INFORMATION AND TELECOMMUNICATION TECHNOLOGIES GROUP, ELECTRONIC INDUSTRIES ASSOCIATION, ACCOMPANIED BY ALLEN WOLF, FORMER DEPUTY TRADE REPRESENTATIVE OF THE UNITED STATES; AND MICHAEL BORRUS, DEPUTY DIRECTOR, BERKELEY ROUNDTABLE ON THE INTERNATIONAL ECONOMY, UNIVERSITY OF CALIFORNIA, BERKELEY

Mr. Marshall. Thank you, Mr. Chairman. I am Travis Marshall, corporate vice president of Motorola. I am appearing today on behalf of the Information and Telecommunications Technologies Group of the Electronics Industries Association. I am industry vice president of the ITG and also treasurer of the entire association.

The ITG represents 100 U.S.-based manufacturers of telecommunications equipment, who account for roughly 85 percent of the U.S. production.

The issue which the subcommittee is addressing today, the adequacy of existing U.S. trade laws to address the telecommunications trade problem is not merely timely, but, we believe, a matter of considerable urgency.

Your stated the basic problem very clearly yourself in your recent letter to Ambassador Brock and Secretary Baldrige.

With me is Mr. Allen Wolf of Vernon Lipfert, former Deputy Trade Representative of the United States, and if there are technical questions that come up at the end, he will certainly assist me with those.

As has been stated in this hearing—and I won't go through my entire presentation, because I believe it would be quite redundant from many of the things that have already been stated—but I would like to say that the breakup of AT&T or the Bell System has definitely given a unilateral opening of the U.S. markets. It has had a substantial effect on our trade deficit, because the market is open here and it is not open is other countries.

The actual statistics were given by Mr. Lent and very accurately on the trade imbalance that we do suffer, particularly with Japan, where it is about $1.8 billion. I would reemphasize that if we did not have a trade deficit with Japan, we would have a substantial trade surplus worldwide, but that one country is our major problem.

Mr. FLORIO. It might be most productive for the subcommittee to have both of the witnesses react to Secretary Olmer's indication of progress or lack thereof and whether there is any substantial agreement or disagreement with any of the points that the Secretary made.

Mr. MARSHALL. Well, I would say this. To put the round of negotiations in perspective, we think they have made a tremendous all-out effort. I would like to also comment, there is no one more qualified or competent than Secretary Olmer in this event. I think he has been totally immersed in this for 4 years and was for 4 years before going to Commerce, involved in trade—a very competent man—and if he fails, I think there would be no one who would have succeeded.

Mr. FLORIO. His failure, what measures failure?

Mr. MARSHALL. We believe—and it's not part of negotiations—that there should be a positive—a positive program, something that's measurable in results afterward. Those results have to be shipments from the United States to Japan.

Mr. FLORIO. You heard the Secretary talk about an affirmative action concept that he seemed to imply was someone asking for a guarantee, merits aside, of a certain share of the Japanese market.

Is that your concept of positive action, that the Japanese would guarantee us, merits aside, a certain sales volume?

Mr. MARSHALL. I think they may have to—in order to make it happen, I believe they are going to have to have something that would amount to a guarantee that would be either a percentage of markets, similar to their percentage of the market here, or shipments similar to the shipments that they make here, or something that shows a positive opening up. It could be any one of several things.

Mr. FLORIO. As a business person, are you comfortable in advocating guaranteed market share, market conditions notwithstanding, assuming that we have a fair market system?

Mr. MARSHALL. If we had a fair market system throughout the world in telecommunications, I would not advocate such a thing. But you're dealing in an area, Mr. Chairman, where even in the European Community, going back many, many decades, each PTT or Post, Telecommunications & Telegraph of the world had its own manufacturers within its own country. This is true in Europe; this is true in Japan; it's been true in most of the industrialized world.

The United Kingdom has opened up, the United States has opened up, the rest of the world is relatively closed to us. It is going to take positive action to make something happen, I believe.

In Japan, I would like to reiterate, this positive action is necessary because of the general attitude—I think the law can open up the market. This thing of type approval that Mr. Olmer mentioned is written very similar to our own rules, as I understand it. However, that's like peeling one layer off the onion. There is something beneath. And when you get all the way down to the bottom, there is going to be the purchasing agent who's going to say, as was said to me in Japan some 14 years ago when I went over for Motorola to try to find a way to open the market to Japanese potential customers, they say, "Well, yes, you have a very good product, a very good price, but why should we buy an American product when we can buy a product that's made in Japan, period."

If that attitude prevails, I think that market will never be open, and I think they have to take that action. We can't. It's an educational process.

Now so far as changing culture, that would be a cultural change perhaps. But if you look at Japan on the very long term, go back 100 years ago if you want to look at the long-term culture, and they were not exporters either, so they have been able to change their culture at least in one direction.

Mr. Florio. Next we will hear from Mr. Borrus.

Mr. Marshall. Thank you.

[The prepared statement of Mr. Marshall follows:]

STATEMENT OF

C. TRAVIS MARSHALL

Mr. Chairman, I am C. Travis Marshall, Corporate Vice President for Motorola Inc. I am appearing today on behalf of the Information and Telecommunications Technologies Group (ITG) of the Electronic Industries Association; at present I am serving as Treasurer of the Association. The ITG represents 100 U.S.-based manufacturers of telecommunications equipment who account for roughly 85 percent of U.S production of telecommunications equipment. I appreciate this opportunity to appear before you today.

The issue which the Subcommittee is addressing today, the adequacy of existing U.S. trade laws to address the telecommunications trade problem, is not merely timely, but a matter of considerable urgency. You stated the basic problem very clearly yourself in your recent letter to Ambassador Brock and Secretary Baldrige:

> The increasing access which foreign producers have gained to our domestic telecommunications equipment market has not been matched by equivalent market opportunities abroad.... As a result of this lack of balance in market opportunities, the U.S. balance of trade in telecommunications equipment is deteriorating dramatically.

By breaking up the Bell system, we have unilaterally opened our own telecommunications equipment market to foreign products while most major foreign markets remain largely closed to U.S. suppliers. We can see the results in the balance of trade. Last year we ran a net deficit with the world of $608 million in this sector, according to statistics prepared by the U.S. Department of Commerce.

The Imbalance in Market Opportunities

This imbalance is incongruous in light of the fact that our telecommunications equipment industry is, on the whole, the most competitive in the world. We have always been, and we remain, the technological leaders with respect to the most complex and advanced telecommunications systems and technologies. We enjoy a comparative advantage in this industry, and if there is any manufacturing sector in which the United States should be running a trade surplus, this is it. The fact that our balance of trade is instead deteriorating dramatically is indicative of the harmful effect which an imbalance in market access opportunities can have on a highly competitive U.S. industry. If present trends continue, we confront the prospect of a serious -- and rapid -- erosion of U.S.-based telecommunications manufacturing.

There are few manufacturing sectors in which the disparity in market access opportunities is more starkly apparent than this one. Since the AT&T divesture, the U.S. has become a truly open market for telecommunications equipment. The former Bell operating companies have dramatically increased their procurement from foreign suppliers, and last year, according to the Commerce Department, this country imported over $4 billion in foreign-made telecommunications equipment. Most of this equipment was procured from countries whose markets are largely closed to us, reflecting discriminatory procurement practices by national PTTs as well as a wide variety of nontariff barriers.

Our most serious bilateral trade deficit is with Japan. In 1984 we imported over $2 billion in telecommunications equipment from Japan, and exported only $194 million to Japan -- our net deficit was $1.8 billion.[1] If our bilateral trade with Japan in this sector was in balance, we would be running a substantial global surplus. Instead, the bilateral trade balance is running against us by over ten to one, and appears to be getting worse.

As you are aware, the principal factor underlying this imbalance has been the presence of significant market barriers in Japan. Nippon Telephone & Telegraph (NTT), the government-owned telecommunications monopoly, refused, as a matter of stated policy, to procure significant quantities of foreign-made equipment until 1981. Thereafter, although this policy was ended pursuant to a bilateral U.S.-Japan agreement, U.S. sales of telecommunications equipment to NTT have not shown a significant increase -- certainly nothing like the expansion of sales which Japanese firms have enjoyed in the United States. While Japanese government officials, notably NTT President Shinto, have made substantial efforts to increase NTT's foreign procurement, NTT's bureaucracy appears to remain resistant to any substantial increase in foreign purchasing.

The Japanese telecommunications market is now undergoing a substantial restructuring. Last fall it became apparent that a new legal and regulatory structure was being contemplated by the Japanese government which would very likely operate as a major

---

1/ SIC Codes 3661 and 3662.

barrier to U.S. products in Japan. The U.S. government has mounted intensive negotiating effort to ensure that such a backward step does not occur. To date, although some progress has been made, there remain significant elements of the new regulatory structure -- notably the excessively stringent Japanese equipment standards and the discretion retained by Japanese officials to certify foreign equipment for use in Japan -- which may constitute major impediments to increased U.S. sales.

To put the latest round of negotiations in perspective, the U.S. government has made an all-out effort to open the Japanese market, but has only been able to achieve some concessions with respect to the regulations governing access to that market. There is little or no indication that U.S. sales to Japan will increase as a result of this effort -- the most optimistic prognosis is that the level of U.S. sales in Japan may show a very gradual increase over the next several years. As one U.S. executive commented last week,

> The walls around Tokyo are papered with open procurement agreements, but they're not buying anything.[2]

Meanwhile, Japanese sales in the U.S. are expanding at an extraordinary rate.

2/ Wall Street Journal, March 20, 1985.

The Role of the U.S. Trade Laws

Since the end of World War II this country has been a participant in the multilateral trading system based on the General Agreement on Tariffs and Trade (GATT) and its associated agreements. A basic idea underlying the GATT system is that the participants should engage in a mutual, and mutually beneficial, reduction of trade barriers. In return for reductions in its own at-the-border restrictions, each participating nation was to receive increased access to the markets of the other parties to the GATT. In the telecommunications sector, it is quite evident that this basic concept simply is not being applied. We have removed our barriers unilaterally, but we have not received anything in the form of enhanced market access abroad in return.

The Congress has long recognized the inherent risks to U.S. industries when our trading partners do not adhere to the letter or spirit of the GATT system, and has enacted a series of trade remedies designed to address instances of unfair foreign trade practices. In establishing these remedies, the Congress has delegated authority to several federal agencies and the President to retaliate against unfair foreign practices, and has established standards spelling out those instances where retaliation is appropriate.

This Subcommittee has long been concerned with the adequacy of these remedies, and last year played an active role in strengthening the trade remedies available to U.S. industries in the Trade and Tariff Act of 1984. The question we now face is whether those remedies -- as recently strengthened -- are adequate to address the very serious trade problem which we now confront in telecommunications.

The principal trade remedy which is available to U.S. industries confronting foreign market barriers is Section 301 of the Trade Act of 1974, which authorizes the President to take "all appropriate and feasible action within his power" to respond to foreign practices which are inconsistent with trade agreements or which are "unjustifiable, unreasonable or discriminatory" and burden U.S. commerce.

"Unjustifiable" means an act, policy or practice which violates the legal rights of the United States, such as a violation of U.S. rights under the GATT. Most foreign countries, however, have excluded their PTTs from coverage under the GATT Agreement on Government Procurement, which provides for nondiscriminatory government procurement, and argue that they have no legal obligation under the GATT to open their telecommunications procurement to foreign suppliers. Japan has concluded an agreement with the U.S. to open its telecommunications procurement, but it contends that despite the low volume of NTT purchases, it has opened its procurement and is adhering to the terms of the NTT agreement. Moreover, some Japanese officials have argued that as the Japanese government ownership role in NTT is reduced, NTT will no longer be subject to the terms of the agreement.

What constitutes "unreasonable" foreign behavior, for purposes of Section 301, was very nebulous until 1984. In the Trade and Tariff Act of 1984, however, Congress spelled out what it meant by that term -- it defined "unreasonable" to mean, among other things, the denial of "fair and equitable market opportunities" to U.S. comanies. Leaving aside for the present the question of whether U.S. legal rights are violated under the "unjustifiable" test, by this new standard the telecommunications trade problem appears to be clearly actionable under Section 301. Our industry does not enjoy fair and equitable market opportunities in Japan -- or, for that matter, in Germany, France or most other industrialized countries which are major telecommunications markets -- and that fact is directly attributable to past and present government policies and practices. In fact, it is questionable whether another U.S. industry exists where the denial of fair and equitable market opportunities abroad is more pronounced and more evident.

Accordingly, the ITG is now seriously examining bringing a Section 301 action under this new provision of the law. We believe, given the language of the new law and the facts of our particular situation, that we have a very solid case. This action might be directed against a number of major trading countries where U.S. companies are denied access. Japan, with which the U.S. trade imbalance is by far the largest, would certainly present a suitable subject for such a complaint. We believe that the Congress has already delegated to the President sufficient authority to fashion an effective remedy in the event that our case was successful. This includes not only the authority to restrict imports, best used to provide leverage for market opening efforts, but the new authority for trade agreements provided under the High Technology provisions of the Trade and Tariff Act of 1984.

Will Section 301 provide an adequate solution to the telecommunications trade problem? As the provision is discretionary, the answer, unfortunately, is simply not clear. Even in very meritorious cases, the President is subject to strong pressure to take no retaliatory action. Such pressure is intensified by the fact that the President must take the action -- making retaliation highly visible, and, from the President's perspective, perhaps inadvisable for broader foreign policy reasons. Any U.S. President will take action against major U.S. allies only with great reluctance, regardless of the severity of the sectoral problem.

An example of this problem is the present telecommunications dispute with Japan. The U.S. government is under no illusions as to the existence of barriers to U.S. products in Japan -- high administration officials have been vociferous in their criticism of these barriers, and President Regan himself raised the issue in his meeting with Prime Minister Nakasone early this year. The President has the power to take action against Japan under Section 301 today, on his own initiative. He could find that Japan has denied "fair and equitable market opportunities" to U.S. companies -- a finding with which U.S. negotiators would no doubt concur -- and fashion a remedy. However, he has not taken such action to date, and absent a dramatic signal from the Congress, such as a resolution from both houses, that such actions should be taken, may remain relevant to do so.

The political pressures to which the President is subjected from the viewpoint of U.S. foreign policy -- whether or not U.S. interests are perceived correctly -- always enhance the prospect that ultimately no action will be taken. That is probably the principal reason that new telecommunications legislation will be introduced in this Congress. Such legislation is less likely to stress the creation of entirely new remedies -- numerous remedies already exist -- than a narrowing of the Executive's discretion to avoid taking action in obviously meritorious cases.

The problem of executive discretion can be approached in several ways. A Section 301 case is brought before the Office of the U.S. Trade Representative (USTR) but the ultimate authority to impose a remedy is a decision which is left to the President himself. In telecommunications, the President could, by executive order, delegate his retaliatory authority to USTR, with a mandate to conduct tough negotiations providing for real market access for U.S. telecommunications firms by a fixed date. If these negotiations were unsuccessful, the USTR himself could proceed to apply a remedy itself, acting under delegated Presidential authority. This would tend to reduce the direct pressures on the President and would vest authority to take appropriate retaliatory action directly in the hands of U.S. negotiators -- giving them a powerful additional source of leverage. Alternatively, the Congress could delegate such authority to USTR through the enactment of new legislation, as was done in 1984 in the case of investment related trade performance requirements.

Another approach would be for the Congress to enact legislation which directs the President to secure equitable market access for U.S. telecommunications suppliers abroad, and which limits the President's discretion to avoid taking any action if our trading partners are unwilling to open their markets. While this legislation may or may not create new retaliatory remedies, its most significant feature would be a provision requiring that the President take action -- effective action -- in the event our trading partners remain intransigent. To the extent the President might retain some discretion, it would be only with respect to the choice of remedy, not the decision as to whether a remedy should be applied. Moreover, the legislation should require that the remedy chosen be sufficiently stringent to restore the balance of competitive opportunities.

Such legislation could, in effect, actually reduce the pressures on the President by limiting options, and could even reduce the foreign policy costs of any action because the balancing of concessions should be viewed as a routine trade matter and not a major "retaliatory" step. The pressure would be placed where it belongs, on those trading partners that refuse to provide our companies with competitive opportunities which are equivalent to those which their companies enjoy in the United States. Those countries would face the certainty of a retaliatory response within a designated period if they failed to open their markets.

The problem which we face in this sector is urgent. If the status quo is not disturbed, we may well witness the rapid erosion of one of our most competitive and strategically important high technology industries. I commend this Subcommittee for its recognition of and concern for this issue, which is one of the most serious trade problems we will face in this decade.

STATEMENT OF MICHAEL BORRUS

Mr. **Borrus**. Thank you, Mr. Chairman.

Let me state up front that I think it's very likely, judging by the experience that we've had in other sectors with Japan, that some kind of trade sanctions or the threat thereof may well be necessary to force them to move in a direction of greater openness.

My prepared testimony summarizes the views we've developed at the Berkeley Roundtable on the changes that are occurring in the Japanese market and the implications of those changes for the competitive position of United States firms on world markets and in Japan. I don't want to reiterate those issues.

What I would rather——

Mr. **Florio**. The conclusion of which is what in terms of those changes?

Mr. **Borrus**. The conclusion of which is that there is a framework in place that could lead to increased sales of United States equipment in Japan, but it is very likely to be administered in a way that is detrimental to United States producers, that self-consciously tries to advantage Japanese producers in world markets, and therefore in the absence of continuing pressure from the Government and, indeed, possibly the threat of trade sanctions, I doubt that there will be much opening.

What I would like to do instead is briefly talk about the kinds of trade sanctions that I think might be appropriate on Congress' part in trying to open up the Japanese markets.

Moving in that direction, I want to suggest that everyone has to bear in mind that whatever action that is taken toward Japan, you are trying to open up a very entrenched and highly successful system of economic development. As we've experienced, as I think the administration has experienced over the past few years, changing that system does not come easy at all.

The converse is that too strong a congressional response in instantaneously or completely shutting off the United States market to Japanese exports could easily produce defensive and retaliatory reactions from Japan rather than a further opening. That is something, I think, that everyone wants to avoid.

If you do move to impose trade sanctions, I suggest there are certain sanctions which should be avoided, because when imposed in other industries in the past, they have failed to accomplish their purposes and indeed have hurt, rather than helped, the competitive position of U.S. industry.

I particularly have in mind quantitative limitations on the volume of Japanese exports to the United States market, be they in the form of import quotas, as in automobiles, orderly marketing agreements, as in TV's in the past, voluntary restraint agreements, as in steel in the past.

Mr. **Florio**. Doesn't that just leave import surcharges, for the most part?

Mr. **Borrus**. It does not. I think the preferred route, if you are going to go to restrictions on imports, is to restrict the value rather than the volume of exports coming into the market, put a ceiling on the total value of equipment coming in.

What tends to happen with restrictions on volume is that it forces Japanese companies or other competitors to move toward higher value-added products in order to generate higher profits while still meeting the ceiling on the number of units that can be brought into the country.

Mr. FLORIO. Higher value products, of course, would pay a higher percentage on the surcharges. Isn't that mechanism self-regulating?

Mr. BORRUS. The reason I would prefer limits on value to surcharges is that I think Japanese companies have demonstrated in the past an ability to absorb those surcharges, still price competitively in the United States market, and gain market share.

Putting a ceiling on value would tend to prevent them from moving up market into areas where U.S. firms continue to hold competitiveness because, to the extent they brought in higher value products, they would be selling fewer of them before they reach the value ceiling.

Mr. FLORIO. Who does the valuation under such a system?

Mr. BORRUS. Well, I believe that products are valued for Customs purposes.

Mr. FLORIO. Customs purposes.

Mr. BORRUS. Let me as a last point—let me briefly address the issue of the use of section 301 of the Trade Act.

The changes to section 301 do clarify its application to the problem of foreign market access. In fact, it's been used in the past even before the changes for those purposes.

I think the problem, as you suggested—the authority is there—I think the problem is, in fact, the discretion afforded the President in deciding whether to act, and once deciding to act, deciding what form that action should take.

If I could echo Chairman Dingell, despite very strong efforts by trade negotiators, by Secretary Olmer, and a good understanding by Secretary Brock, for example, the top levels of the administration, and President Reagan, himself, seem to have shown a remarkable tendency to squander the bargaining chips at their disposal.

I think the decision to remove auto import quotas without extracting any trade concessions from Japan is an instance in case.

I think if you want the President and administration to act in a certain way, you are going to have to constrain them to do so, at least to the extent of constraining them to extract trade concessions from Japan in response for not imposing sanctions on the United States market.

Let me finally say that there are, I think, ways the trade sanctions could be imposed with specific kinds of characteristics. For example, tying them to the bilateral trade balance. Moving a ceiling on the value of Japanese products according to improvement in the trade balance, would tend to put pressure on Japan without provoking the kind of overall defensive retaliatory response that both countries fear.

[Testimony resumes on p. 188.]

[The prepared statement of Mr. Borrus follows:]

Testimony of Michael Borrus

Deputy Director
Berkeley Roundtable on the International Economy
(BRIE)
University of California, Berkeley

Suppliers of telecommunications services, producers of communications equipment, and major users of both services and equipment, are fashioning radically new, digital telecommunications networks in the industrialized countries. Those networks, in their public and private forms, are a critical component of economic infrastructure -- they are the electronic equivalent, for the movement of information, of a nation's roads and rails.

National public and private phone and data networks are being digitized, and their capabilities to carry integrated information increased, through the incorporation of microelectronic, computer, software and optoelectronic technologies. Simultaneously, diverse equipment in the office and factory is being interconnected into digital networks, and these in turn are being connected to the national public and private networks. Such **network integration** is the overriding orientation of the current transformation in telecommunications. Today, the telecommunications industry must be broadly understood to encompass the provision -- for information networking -- of terminal, transmission, switching, control and data base equipment, and voice, data, video, and facsimile services.

Defined in this way, the telecommunications industry is enormous, accounting in 1984 for about $125 billion in revenues in the U.S. However, the telecommunications industry is an economically strategic industry for reasons other than its substantial market size. Telecommunications is strategic in the sense that the railroad and automobile industries have been: It is a critical sector, which by its position in and linkages to the domestic economy underpins the growth and enhances the productivity of the entire national economy. This impact stems from three sources: 1)the communications industry's demand for factor and intermediate inputs; 2)its production of final products and services and their incorporation and use by other industries and consumers -- i.e., the new communications infrastructure and services delivered over it -- and 3)the consequent new rounds of investment and production in the economy provoked by the incorporation and use of communications equipment and services. In essense, the telecommunications industry and the new networking infrastructures that are emerging, are powerful agents of economic growth. They create jobs throughout the economy and support domestic economic development.

These strategic characteristics suggest the importance of maintaining an internationally competitive telecommunications industry in the U.S. This is a problem that has been drastically compounded by the unilateral opening of the U.S. market to foreign competition, at a time when the major foreign telecommunications markets are almost entirely closed to U.S. firms. In order to remain competitive, U.S. firms require access to foreign markets, particularly the Japanese market.

The consequences of exclusion from the Japanese market are severe and cumulative. First, exclusion means the loss of the profit opportunities that finance R&D necessary for development of next generation products. Exclusion also means a loss of opportunities to realize economies of scale that bring down costs and determine competitive position in world markets. Second, Japan is an advanced market, the scene of permanent innovation and refinement in telecommunications technology and manufacturing. The only way to stay abreast of technological change in Japan is to be present in the market. But perhaps the most important reason for being in the Japanese market is that the absense of sustained foreign competition there has given Japanese companies a critical advantage in international competition. In telecommunications today, as in steel, autos and consumer electronics in the past, Japanese success on world markets has rested on the ability of Japanese producers to move rapidly to volume production with limited risk in a domestic market insulated from foreign competition.

However, changes are occuring in the Japanese telecommunications market: The issue is whether those changes will lead to increased opportunities for U.S.

firms in Japan. An evaluation of this issue requires an examination of the new communications laws that will take effect in April, 1985. These are the Nippon Denshin Denwa Kabushiki Kaisha Law (the new NTT Law) and the Telecommunications Business Law. After situating the new laws in the context of the domestic Japanese telecommunications market they alter, I will examine the changes those laws mandate. Throughout, the analysis focuses on the question of whether the changes occuring in Japan will create or resolve American trade complaints.

The new NTT law

Nippon Telegraph and Telephone (NTT) has been Japan's domestic, public, common carrier communications monopoly under the administrative control of the Ministry of Posts and Telecommunications (MPT). In addition to monopolizing common carrier communications, including data transmission, NTT offers data-processing time-sharing services, licenses all communications and runs four very advanced electronics R&D and systems engineering laboratories. Since its formation in 1952, NTT -- under MPT's direction -- has engaged in joint R&D and systems engineering to develop network equipment for Japan's public-switched communications infrastructure with a favored 'family' of major Japanese electronics companies (NEC, Fujitsu, Hitachi and Oki). NTT has helped to develop and finance pilot and mass production systems for manufacture of the products jointly researched and developed. Crucially, NTT has procured high volumes of equipment and systems at premium prices from its family companies -- which serves both to make demand highly predictable and stable, and to subsidize price competition for those Japanese firms on export markets. It has even engaged in direct export-finance. Of course all of these developmental activities have been closed to foreign firms.

In essense, NTT's industrial policy role has enabled favored Japanese telecommunications-computer-semiconductor companies to develop and commercialize new technologies in a protected and subsidized, risk-minimalized way. The resulting equipment has been procured in high volume at premium prices until quality and cost have reached world levels, enabling rapid competitive penetration of world markets by major Japanese firms. As data processing and telecommunications have converged, NTT has emerged as an important element in electronics development.

The NTT law is a substantially watered-down implementation of reforms recommended by Japan's Second Ad-Hoc Commission on Administrative Reform in its Basic Report of July, 1982. The Commission had recommended that NTT be divested in a form roughly paralleling the break-up of ATT in the U.S. -- a central company was to control the trunk lines network, and local companies were to operate local services; the government was to hold 100% of an initial stock offering, but then sell off up to 49% of ownership to Japanese holders over time; new entrants were to be permitted to compete with NTT in the delivery of enhanced and some common carrier services. The new NTT law scraps plans to divest NTT into the central and local companies, but implements the stock-holding and (in conjunction with the new Business Communications Law) liberalization of competition reforms. Thus, the new NTT will be initially held 100% by the government, which will gradually cede ownership (with the approval of the Diet), while always holding one-third or more of the shares. Critically, no foreigners or foreign companies will be permitted to buy stock, although a Japanese company held less than 50% by foreign interests will be technically eligable as a shareholder. Moreover, NTT will now be free aggressively to compete in the delivery of enhanced services in the Japanese market (see next section on competition in Value-added Networks) -- and may even be permitted to de-average its rate structure in order to compete with potential common carrier entrants on high density voice and data transmission routes (e.g. Tokyo-Osaka). When the new NTT law goes into effect, NTT will be one of the largest companies in Japan, with about

$40 billion in assets and annual revenues approaching the $20 billion mark.

Just as NTT's overall developmental activities have been closed to foreign firms, its procurement has been equally closed until recently. Until the U.S.-Japan Agreement on NTT procurement was implemented starting in 1981, less than one-half of one percent of NTT's annual procurement had gone to foreign firms. Since the U.S.-Japan Agreement, NTT procurement from foreign firms has risen steadily, from about $15 million in 1980 to about $140 million in 1983. The 1983 figure still represents less than 5% of NTT's estimated annual procurement of about $3 billion (traditional telecommunications equipment is estimated to account for roughly half of that total).

With the exception of a few PBXs, one transportable digital switching system, pocket bell pagers, multiplexers and satellite communications components, there has been no procurement of foreign telecommunications equipment -- despite the acknowledged competitiveness of big-ticket items like digital switching equipment made by U.S. and foreign producers like ATT, Northern Telecom, and Ericsson. Most of NTT's current foreign procurement is data processing components, peripherals, computers and systems, and semiconductor manufacturing and test equipment. Thus, despite years of pressure from the U.S.

government and the U.S.-Japan Agreement, the Japanese market for telecommunications equipment still seems to be largely closed to U.S. and foreign firms.

The U.S.-Japan Agreement was renewed for three years in December, 1983: and it was hoped that the renewal would help more fully to open the Japanese market to U.S. suppliers (Rolm has sold a few PBXs, ATT many small computers, and Cray a supercomputer since the renewal). It is in this context that the new NTT law gains added significance: As the government's ownership of NTT is reduced over time, it is possible that NTT's procurement will fall gradually out from under the coverage of both the U.S.-Japan Agreement and the GATT Code on Government Procurement.

A crucial question in this context, is whether NTT will continue its comprehensive developmental role for Japan's major electronics equipment manufacturers. The aim of NTT's ambitious Information Network System project (INS), is to create a fully integrated, digital communications infrastructure linked by broadband fiber optic cable and microwave equipment. The INS network will evolve from the gradual unification of independent digital data and facsimile networks, with the public switched telephone network (as it is digitized). It is estimated that the entire project will require between $80 to 120 billion in investment over the next 15 years. Estimates of the markets for INS-related private investment and products (including terminal equipment and software) approach $250 billion. Given the huge size of these markets, INS offers enormous leverage for NTT to continue its developmental role to the advantage of Japanese producers. Since the INS project began, NTT has worked almost exclusively with favored Japanese suppliers to develop the current and next generations of equipment and software necessary to implement INS. This has occured despite demonstrable superiority held by U.S. and other foreign producers in many of the advanced technologies required. INS thus suggests that NTT's developmental role will continue for next generation equipment.

However, there are also important signals that in some areas that developmental role will be more limited than in the past, especially as NTT enters the market in competition with its 'family' companies, in particular NEC and Fujitsu. For example, although the data is sparse, it appears that the percentage of NTT procurement accounted for by NEC, Fujitsu, Oki and Hitachi, has fallen from 60% in 1978 to about 40% in 1983 (although the value of this procurement has remained relatively constant). This tendancy toward diversification of NTT's supplier base suggests that opportunities for U.S. and other foreign firms to participate in NTT procurement may well yet emerge. A critical variable will be whether MPT will push

NTT to continue its developmental role, or permit it to continue to diversify its procurement. As INS suggests, a continuing developmental role will center largely in the networking equipment area (since NTT itself will not become an equipment manufacturer for the forseeable future). As just another stock-held Japanese corporation under the new law, NTT will be much more immune to government-to-government negotiations to open its procurement.

Whatever occurs with NTT, however, there could be substantially increased opportunities for U.S. and other foreign producers in Japan because Japan's private sector now actually procures as much telecommunications equipment as does NTT. This fact both demonstrates the tremendous speed at which change is occuring in Japan, and signals the potential that is emerging for new market opportunities. If NTT procurement remains limited, it appears that most U.S. equipment manufacturers looking for opportunities in Japan might succeed by looking toward NTT's competitors (domestic and foreign) in the services arena as they begin to build competing networks. It is to liberalization of competition in services that we now turn.

The Business Communications Law

Since 1971, MPT has gradually begun to relax restrictions on telecommunications in the domestic Japanese market, to take account of the convergence of data processing and communications. A revised telecommunications law in 1971 provided a legal basis for data communications, permitting users to connect with the public network and with leased lines (in some cases, only with the approval of MPT). However, message switching (the most simple kind of value-added network -- see below) was prohibited. In 1972, facsimile machines were permitted interconnection. In late 1982, on-line information processing systems were decontrolled. Under a ministerial ordinance MPT also liberalized some portions of the value-added network (VAN) market, permitting limited VAN services for small and medium enterprises, including internal corporate VANs for affiliated enterprises (e.g. Fujitsu F.I.P. provides administrative information exchange among Fujitsu-related software development companies). Of course, permitting internal corporate VANs provided the major Japanese corporations who might compete in a fully deregulated VAN market with substantial in-house experience in setting up and running VANs. In this simple way MPT policy helped prepare Japanese firms for the coming full deregulation of VANs. The concern outside of Japan is that this policy increased competition in Japan among Japanese firms but did not allow entry of foreign firms.

The new Business Communications Law takes liberalization a step further by partly deregulating common carrier communications and the VAN market in Japan and even opening the latter to foreign competition. The law permits common carrier competition to NTT by Japanese nationals, but bars foreign owned or controlled corporations from the common carrier market. However, the law also permits competition among foreign and domestic Japanese firms in enhanced communications services like VANs on lines leased from common carriers. Critically, entry in this latter market is subject to regulatory control by MPT, in the form of either registration or 'notification' requirements, depending upon the precise communications services offered.

While entry into the VAN business is ostensibly deregulated, any potential entrant must either register or notify MPT of its intent to offer VAN services. Crucially, neither registration nor notification is self-activating; rather, they require a responsive action from MPT. In effect, then, MPT permission to operate must actually be obtained. And, there are broad grounds in the new legislation permitting the Ministry discretion in approving or disapproving entrants to the market. Moreover, the requirements also apply to any changes in the services offered -- thus, the Ministry retains the power to prevent the expansion of VAN operations. Hence, even though foreign firms are permitted for the first time to offer VAN services on the Japanese market under the new law, MPT will have the final say over which firms offering what kinds of services are permitted to operate. This is an interventionist rather than merely regulatory power: MPT's decisions permitting or denying VAN operations will structure the VANs market in Japan. In the absense of strong pressure from outside Japan, it is not hard to envision the Ministry structuring that market to the advantage of Japanese firms.

MPT fought long and hard against MITI to win the new law's notification requirement. During the battle, MPT was forced to drop a proposed 49% limitation on foreign ownership of VANs in Japan -- in part because of strong opposition from the U.S. Nevertheless, MPT's victory in winning the power to screen applicants over MITI's objections (combined with MITI's defeat by the Ministry of education over MITI's proposed software law) reflects a partial reshuffling of policy control over the emerging information economy within the Japanese bureaucracy, and suggests some of the limits of MITI's power in Japan. MITI had wanted VANs to be considered as information processing subject to its own administrative guidance, and thus called for complete deregulation of the

VAN market in Japan. By contrast, MPT wanted to extend its own jurisdictional authority into the information processing realm, implicitly at MITI's expense. Because the distinction between VANs and data/information processing networks is increasingly less tenable from a technological standpoint, future policy control over the evolution of Japan's information-based economy lies hidden in the MPT-MITI fight over the new law. We can expect many similar bureaucratic battles over the next few years as information networking evolves in Japan.

Consequences

The American concern with the current changes in telecommunications in Japan is that the Japanese market will continue to be closed in strategic ways, and Japanese policy will continue largely to favor Japanese producers and help to prepare them for competition on world markets. For the reasons elaborated earlier, U.S. firms can not afford to be locked out of the Japanese market. The consequence would very likely be a deterioration of the U.S. competitive position in the U.S. and other world markets.

U.S. firms should find at least marginally increased opportunities to sell equipment and services in Japan as a result of the partial liberalization of the domestic market effected by the new laws. However, the Japanese market business of U.S. firms will continue to be subject to regulatory control by the Japanese government (in particular, the Ministry of Posts and Telecommunications (MPT)). And paradoxically, liberalzation of competition in Japan could well strengthen MPT's ability to use policy toward NTT to assist development of Japanese industry, since the existence of competitors will provide a justification for MPT action. Indeed, because that continued regulatory control will be less formal than in the past, U.S. firms may find their opportunities systematically limited in ways less amenable to resolution through government-to-government negotiations.

In these circumstances, continuing pressure from the U.S. government will be necessary to push Japan to open its domestic telecommunications market. The threat of trade sanctions, and perhaps their selective, graduated implementation, will undoubtedly be necessary. The aim of policy should be to produce substantive results measured by substantially increased sales of U.S. telecommunications components and systems in Japan. The problem is to shape policy that reinforces openness in Japan without provoking a defensive reaction that makes closure intractable and leads to an escalation of reciprocal protectionism or to managed trade (i.e., the cartelization of trade through national allocations of market share).

A gradual imposition of trade sanctions, sequenced over time with their removal contingent on substantive results, should reinforce the hand of Japanese policy-makers and businesses pushing toward openness, without provoking a blind, defensive response. In order to avoid the problem of managed trade, rather than specifying explicit reciprocal market shares in specific product categories, I would argue for a definition of reciprocal market access tied to a decrease in the trade imbalance with Japan in high electronics-content telecommunications equipment. Substantive results would thus be measured by a decreasing telecommunications trade imbalance, with increased sales in Japan of U.S. produced high-value telecommunications equipment, countering the sales of Japanese equipment in the U.S.

Mr. **Florio**. Mr. Lent.

Mr. **Lent**. Thank you. First of all, I want to thank the witnesses for being here, particularly Mr. Marshall on behalf of the Electronic Industries Association. Perhaps Mr. Marshall was able to determine that I did use some of his testimony in my questioning of Secretary Olmer earlier today.

I didn't think Mr. Olmer would be here when you testified, and I wanted him to have the benefit of some of your expertise.

Mr. Marshall, in your statement at page 6, you have mentioned that "some Japanese Government officials have argued that as the Japanese Government ownership role in NTT is reduced, NTT will no longer be subject to the terms of the agreement."

As I understand it by that statement you mean that you fear that as the Japanese privatize—I think that was the word used by Secretary Olmer—the private entrepreneurs in Japan will not feel bound by the terms of this understanding between the Japanese and the American Governments.

Under the U.S. Constitution, a treaty negotiated by the Government is like a Federal statute, and it is part of the supreme law of the land.

I wonder if you or perhaps your assistant knows how the Japanese law differs from the United States law, so that NIT would not be subject to the agreement which you referred to?

Mr. **Marshall**. I will certainly give Mr. Wolf a chance to answer that.

My own understanding of that would be that we are talking about the Government procurement code and the NTT agreement that took place after the 1979 GAT.

At that time NTT was not included in the Government procurement code, but then came back and we had a separate agreement involving Nippon Telephone to bring them under a code.

As a matter of fact, my company took advantage of that at that very time and sold them product. That is what is meant that would no longer be applicable if NTT is no longer owned by the Government.

Now that is a statement some people were making. I am not trying to defend the statement.

Would you like to add to that, Allen?

Mr. WOLF. It is quite right that the Government procurement code applies to Government-owned entities. NTT will be private, and not by the terms of the Government procurement code subject to its provisions.

What is needed with respect to U.S. trade with Japan is—and why the Electronics Industries Association ITG Group has proposed it—is an action program of the Government dealing with its private sector, to make the private sector open to imports in the same way that the market functions in the United States.

That is what is missing. It is not part of current agreements, and it is what will be required in the future, and it is not the subject of current negotiations, and that is one of the great problems with what Secretary Olmer said this morning. He is doing what needs to be done with respect to the ordinances, with respect to what is on paper in terms of no overt discrimination against foreigners in the procedures that the private NTT system will set up.

That is not sufficient in and of itself to see additional sales of United States product in Japan.

Mr. LENT. Wasn't Secretary Olmer's testimony to the effect that this movement toward privatizing in Japan, in his opinion was going to be helpful to American industry? Whereas your testimony is quite the contrary? You have stated the restructuring of the Japanese telecommunications market is likely to operate as a major barrier to United States products in Japan.

Mr. MARSHALL. It certainly could act as a barrier, depending on the results of—these negotiations that they are carrying on. They address the issues that are of concern to us. And if they win the 10 goals, it will overcome much of those problems, the formal problems.

Mr. LENT. Thank you, Mr. Chairman. I have no further questions.

Mr. FLORIO. I would like to thank our witnesses today as well. It is a rough analogy, but it seems to me that we can almost talk about the posture this nation was in a couple of years back when we tried to outlaw inappropriate discrimination, that it's one thing to pass the statutes eliminating de jure discrimination. It's another thing to get to the more insidious types of discrimination that take place, and that is what we are really talking about.

The Secretary this morning is telling us he's working very hard, and we realize that he is, to get rid of the conscious discriminatory provisions embodied in the Japanese system and the Japanese law, but when that's achieved, assuming it is achieved, that is not going to solve the problem that history shows us is the real problem, which is the more subtle forms of discrimination; nontariff barrrier type which effectively is excluding our products out of that market, and trying to deal with that is the real problem.

You have suggested, and I think the Congress is very receptive to getting to end results evaluation; that is to say, is the end result and nondiscrimination resulting in access to the market? I think there is a sense of the need for some sanctions that would be applied, and then when the end result of access is achieved, the sanctions would be lifted.

I think there is a sense for the need of that type of activity.

Yes, sir?

Mr. Wolf. Mr. Chairman, may I just support one thing that you have said in connection with Secretary Olmer's testimony? And that is the role of the Congress on the need for any additional action by the Congress in this area. It is true that the administration has broad powers to act that have been improved substantially through your efforts in the last Congress and the Trade and Tariff Act of 1984.

However, there is a real question of willingness to act, and that is something that can be affected by congressional action. It can be affected by who in the executive branch has the power to act. It is now placed with the President. And as Mr. Marshall testified today, that could be appropriately put in a Cabinet officer, so that the reluctance to act which occurs at the highest level of Government is overcome.

There could be criteria for action which the CON statute still has. No matter how much improvement in a general sense has been made with respect to telecommunications with respect to the very difficult problems of the telecommunications market in Japan, there could be some clarification.

It doesn't mean that there's a requirement that the law be changed, but it may prove necessary if 6 months from now or 3 months from now, you're still in the position of holding hearings on whether the Japanese market is indeed being opened.

Mr. Florio. We will ultimately go to the Wills Act that we have seen in different contexts around here. The Environmental Protection Agency being one that comes to this subcommittee's mind. You can have all the laws that you want to, but people are capable of redefining what the operative language is, and if someone doesn't really want to act, they will find multiple excuses not to.

But I appreciate the participation of this panel, and thank you very much.

We are are going to have our last panel to witnesses. Mr. John Morgan, assistant to executive vice president for Legislation-Government Agencies of the Communications Workers of America and Mr. Robert Wood, research director of the International Brotherhood of Electrical Workers.

My understanding is Mr. Morgan unfortunately is not able to be with us, so we will have Mr. Wood testify.

Mr. Wood, I appreciate your participation today. I have just been informed that the MX vote is not too far away, so we'd be pleased to have your statement in its entirety, and feel free to summarize, in the hopes that we can be able to go forward expeditiously.

We are very pleased to have you here. We'd ask for the record that you introduce your colleagues.

STATEMENT OF ROBERT B. WOOD, RESEARCH DIRECTOR, INTERNATIONAL BROTHERHOOD OF ELECTRICAL WORKERS

Mr. WOOD. I have here with me this morning two of my colleagues, Richard Collins of the research and education department, and Dale Dunlop.

As you stated, Mr. Chairman, we have submitted our testimony in full for the record.

Mr. FLORIO. Without objection, it will be made part of the record in its entirety.

Mr. WOOD. Thank you. I would like to say that the International Brotherhood of Electrical Workers is a rather large union, and has quite an interest and quite a concern for what is happening in the telecommunications industry. We represent a substantial number of members employed in this industry. Many of them are employed by the carriers, such as the BOC's, the Bell operating companies. A number are employed in the telephone interconnect industry, and a substantial number are employed in the production and manufacture of telecommunications equipment.

We had in the past substantial number of members employed working for Western Electric, which is now AT&T Technologies.

We would like for the benefit of this subcommittee in a summary fashion to point out what we see as parallel developments taking place in the telecommunications industry. That is, developments that parallel what happened in the television receiver industry.

We think this is important because we think that we ought to be able to learn from our experiences. How many experiences must we have before we learn? Those of us who are familiar with what happened in the television receiver industry know that it started out at first with the importation of components. From that, we went to subassemblies, modules, then complete black-and-white sets, and then small color sets, and then ultimately a domination of the color TV market.

What I am saying is that here we had a very high technologically advanced industry. Here we had an industry that was developed in the United States. The TV technology was developed in the United States. The transistor, developed in Bell Laboratories here in the United States. Here in the United States we had the integrated circuit developed.

All of these technological advances improved and moved forward the state of the art of the television receiver industry. And yet in this industry we saw destruction take place. We saw it decimated by imports. If you look at what is happening in telecommunications industry, you can see this reflection I am talking about, this parallelism that I am talking about.

It starts out with telephone handsets, the phone sets. From that we have moved into the customer premise equipment, the telephone interconnect industry equipment; that is switch gear. And even now some of the more sophisticated apparatus that is used in the telecommunications industry.

So it starts out with equipment that sometimes we are a little too quick to write off, and grows steadily until it's a complete industry domination.

What is another parallel we can look at? Well, what industry is any more technologically advanced than the telecommunications industry? This country is second to none in that industry. As I pointed out, we developed the TV technology. We were second to none in that technology. Yet we find imports have adversely affected employment in both these industries. We have no opportunity throughout most of the industrial countries, especially Japan, to sell our telecommunications equipment.

Mr. FLORIO. Mr. Wood, can I ask you to address the point that has been brought to our attention, that somehow production facilities being established in this country by Japanese or overseas competitors are going to compensate for the labor that has been lost as a result of imports? This is the automobile industry. There was an article over the weekend in the paper on NEC, that somehow the Japanese establishing the plants here will provide comparable numbers of employment opportunities for American workers. Could you comment on that?

Mr. WOOD. Yes. I would certainly take issue with anyone that would attempt to argue that point, in that simply I would look to the experience that we have had in the television receiver industry. If you look at what is happening in the television receiver industry, you see that we went from a very viable industry in this country, where at one time we employed in excess of 100,000 American workers, to today you are likely to find less than 25,000 workers.

What we have wound up with is a final assembly operation.

Mr. FLORIO. Thank you. That is exactly my opinion of what is happening in the automobile area. All of these alleged American facilities really end up as nothing more than sophisticated assembling operations for the high production parts that are manufactured overseas.

Mr. WOOD. Absolutely.

For employment, I could have gone back a little further in time, but I thought it would serve our purpose to just look at what happened to some of the Western Electric plants where we have IBEW members employed. And jsut going back to 1980, we noted that we had in the neighborhood of 55,000 members employed in these plants, producing telecommunications equipment. Today, we have less than 32,000. We have plants closing in Lisle, IL; we have plants closing in Hawthorne. We have plants closing in Kearny, NJ. We have plants closing in different places throughout the country that has impacted upon the American worker that we represent in this industry.

We have looked at the employment data for SIC 3661 and noted for the period of January 1980 to 1984 that there was a decline of 23.4 percent.

So what's happening in the IBEW has been happening across the board in the industry. Why is this happening? We all know. It's been brought up this morning. It's been talked about in the news media. This tremendous surge of imports that our country has experienced. We have gone from where we carried a trade surplus to now a trade deficit in this vital industry.

What's the cause of the deficit? I think that's been spoken to many times. We have an open market. Our market has been wide open. With the divestiture of AT&T, other markets are closed and protected.

We hear time and time again that things are going to get better. Our Government officials tell us that they are negotiating. We have had some rather poor experiences to draw from in looking at what might happen in the future as a result of negotiations. And what I mean by that is if we look at the NTT agreement, we see that it's been rather dismal in results, that Japan has enjoyed a trade advantage of selling to us $32 worth of telecommunications equipment for every $1 of equipment that we sell to them.

We think that is enough negotiating. We think that we have tasted the pudding. It's time for action now. We were told by officials in the USTR's office that, "Give it time. Let's look at what is going to happen with this NTT agreement." And we were also told that sales would be the real taste of the pudding.

Well, we say our workers, American workers, can't stand tasting this pudding much longer, when we are losing ground on the basis of 32 to 1.

Mr. FLORIO. I think, Mr. Wood, you can sense that the subcommittee is starting to identify very closely with what it is that you are talking about, in terms of frustration with words and agreements in principle.

Mr. WOOD. And if I just may conclude, Mr. Chairman, and it's been said before, I think, that this record is played so much that no one could come before this committee and say anything that would be new and surprising. I think, though, that what we would really like to express as emphatically as we can is that it is now a time for action. It's not a time to worry about what is the exact formula, what must be the precise method that we use. We believe that our trade imbalance problems with Japan are so serious, so severe, that we need to take action.

Action could be very simple. I think we need to show the Japanese, our Japanese counterparts, that we mean business, and that this is an industry in which they can't tell us it's on the sunset verge. This is an industry in which we are right out in front.

The action may be as simple as denying them our market access. We do not have to develop some sophisticated formula as to what tariff we are going to apply or whether it's going to be an OMA or how much longer should we negotiate or how much longer should we hold out hope for NTT agreement.

[Mr. Wood's prepared statement follows:]

TESTIMONY OF
ROBERT B. WOOD
BEFORE THE
HOUSE SUBCOMMITTEE ON COMMERCE, TRANSPORTATION AND TOURISM

My name is Robert B. Wood. I am appearing today before this Subcommittee on behalf of Charles H. Pillard, International President of the International Brotherhood of Electrical Workers. The IBEW represents about one million members employed in the different branches of the Electrical, Electronic and Telecommunications Industries. Several hundred thousand of our members are directly employed in the Telecommunications Industry. Some of them currently work for telephone operating companies, such as the various Bell Operating Companies, General Telephone, United Telephone, Central Telephone and Utilities, Mid-Continent Telephone Company and many other independent telephone companies. Others are employed by telephone interconnect companies, such as Fisk Telephone Systems, Inc.; RCA Service Company; ITT Services, Inc.; GTE Automatic Electric and others. Many of our members, as well, are employed by companies that manufacture telecommunications equipment such as the AT&T Manufacturing Branch AT&T Technology, formerly Western Electric; GTE Automatic Electric; GTE Lenkurt and others.

From the foregoing, one can see that the IBEW's involvement in the Telecommunications Industry has been substantial. Needless to say, our concern for what has been happening to the Domestic Telecommunications Equipment Industry is paramount.

What we see happening in the Telecommunications Industry is a direct reflection of what has happened to the Television Receiver Industry in the U. S. I am sure you are well aware of what has happened to the Domestic Television Industry and domestic employment within that industry. But, because of the paralleling developments we see taking place in the Telecommunications Industry, we believe it is helpful to summarize those developments.

Initially, in the Television Receiver Industry, it was imported components that impacted upon domestic employment and domestic manufacturing operations involved in the production of those components. The importation of components grew to include subassemblies and modules. Next, the Black and White Television Receiver Industry became totally dominated by imported sets with ultimately no U. S. production of black and white sets. Concurrently, the import penetration ratio of color television receivers grew steadily.

Again, just as in the Black and White Receiver Industry, it was at first, importation of parts, modules and subassemblies. Next, nearly completed sets were imported. Then, completed sets of small screen size entered the U. S. marketplace with the set size steadily growing. Today, in our country, we have basically a Color Television Receiver Industry consisting of final assembly operations, providing just a fraction of the employment opportunities that existed prior to the decimation of this industry.

As a comparison of the developments is made, it is important to keep in mind several pertinent facts. Television technology was developed in this country. U. S. producers enjoyed the position of being on the leading edge of that technology. The development of the transistor and integrated circuit took place in this country and advanced the state-of-the-art of the Television Receiver Industry. In spite of these technological advantages, imports steadily grew and grew to such magnitude that today, it is impossible to buy a television receiver that is wholly U. S. made. What is just as significant to note, is that while the U. S. Television Receiver Industry was being affected by imports especially from Japan, Taiwan and South Korea, there was practically no opportunity for the export of television sets made in this country.

We see very similar developments occurring in the Telecommunications Industry and these developments are occurring under very similar circumstances. The state-of-the-art in the Telecommunications Industry in the U. S. is second to none. The Domestic Telecommunications Industry has been and continues to be on the leading edge of technology in this field. Yet, we have been unable to develop export markets for the Telecommunications equipment we produce. The U. S. market is open to the firms of foreign countries. Imports have been increasing substantially, especially since the divestiture of AT&T. Imports of telephone sets used in both home and commercial operations have flooded the marketplace. There have been increasing amounts of imported equipment used in the telephone interconnect sector and there has been an increasing amount of imported switch gear and other telephone apparatus utilized throughout the Telecommunications Industry. All of this is taking place in an industry that is highly recognized to be the most technologically advanced in the world.

At the same time, we have been denied export opportunities for products of this industry to our so-called trading partners. If a U. S. industry cannot sell products in an area in which we are highly technologically advanced, what kind of industry can we expect to derive export sales from? Another question we might raise, is given the present course of events that have taken place in the Telecommunications Industry, what evidence can one offer that this industry will not go the same route the Television Receiver Industry went? We submit that there is not a great deal of difference in the micro-electronics involved in television production and that involved in the production of telecommunications equipment. What has happened to the Domestic Television Industry can happen to the Domestic Telecommunications Industry and such changes can occur very rapidly.

From January 1980, to January 1984, employment for production workers in SIC 3661, Telephone and Telegraph Equipment, declined in the United States by 23.4 percent. The IBEW has experienced about a 14 percent jobs loss in that category since 1981. Of course, this one SIC category does not cover the full range of products in the Telecommunications Industry; but the employment experience in this category is representative of what is happening on a broader scale.

A closer look at employment at AT&T Technologies, formerly Western Electric, also indicates the employment trends in this industry. Combined, IBEW employment in these plants is now about 32,000. This is down from approximately 55,000 just four years ago. The plant where we represent employees at Lisle, Illinois, has closed; and the plants at Kearny, New Jersey; Hawthorne, Illinois; and Indianapolis, Indiana, are in the process of closing.

The intensity with which foreign imports of Telephone and Telegraph Equipment have overwhelmed the United States market is of a magnitude unforeseen by anyone. In 1982 the United States had approximately a $200-million dollar trade surplus in this industry. In 1983 the surge of imports had changed that surplus to a $418 million trade deficit, a $600 million swing in just one year, and the condition was rapidly worsening. In 1984 the deficit in Telecommunications was over $1 billion, and projections for 1985 are for a deficit on the order of $1.7 billion. This means that from a $200-million dollar surplus in 1982 we will have gone to a combined deficit of approximately $3.1 billion for the years 1983-1985. Under current conditions no end or relief from this surge is anticipated. In 1983 imports increased by 93%; in 1984, by 44%; in 1985 it is anticipated by another 44%; and this is expected to continue unabated without some strong action.

WHAT HAS CAUSED THESE STAGGERING DEFICITS? ACCORDING TO THE U.S. INDUSTRIAL OUTLOOK, FOR 1985 PUBLISHED BY THE COMMERCE DEPARTMENT:

> "THESE DEFICITS HAVE ARISEN BECAUSE U.S. MANUFACTURERS HAVE ONLY LIMITED ACCESS TO MANY FOREIGN GOVERNMENT-CONTROLLED MARKETS, WHEREAS DIVESTITURE COMPLETELY OPENED THE U.S. MARKET TO FOREIGN COMPETITION."

WHAT HAVE WE DONE TO REMEDY THIS PROBLEM? ON JANUARY 1, 1981, WE PUT INTO EFFECT AN AGREEMENT WITH JAPAN, THE LARGEST EXPORTER OF TELECOMMUNICATION EQUIPMENT TO THE UNITED STATES, TO OPEN UP THE JAPANESE MARKET TO U.S. EXPORTS OF TELECOMMUNICATIONS EQUIPMENT. THIS WAS KNOWN AS THE NTT AGREEMENT.

HAS THIS REMEDY WORKED?

IN EVALUATING THE AGREEMENT, IT IS HELPFUL TO USE THE STANDARDS ESTABLISHED BY THE FORMER UNITED STATES TRADE REPRESENTATIVE REUBIN ASKEW AND LATER BY HIS SUCCESSOR, THE CURRENT UNITED STATES REPRESENTATIVE WILLIAM BROCK.

IN DECEMBER, 1980, UPON COMPLETION OF NEGOTIATING THE AGREEMENT, THEN AMBASSADOR ASKEW SAID,

> "THE PROOF OF THE NEW AGREEMENT WITH JAPAN WILL BE IN HOW MUCH PROCUREMENT NTT DOES WITH U.S. AND FOREIGN SUPPLIERS. WE CONSIDER JAPAN IS ON A TRIAL PERIOD. IN THREE YEARS THE GATT CODE WILL BE REOPENED FOR NEGOTIATION - AND IF NTT HAS NOT MADE SIGNIFICANT PURCHASES FROM U.S. SUPPLIERS, WE WOULD CONSIDER THEM NONCOMPLIANT WITH THE GATT CODE AND THE U.S. WOULD CONSIDER COUNTERMEASURES."

Ambassador Brock on June 3, 1982, before the Senate Finance Committee, Subcommittee on Trade in reporting on the operation of the MTN Government Procurement Code and the U.S./Japan NTT Agreement made the following statements:

> "The acid test for the Agreements will be their commercial results."
>
> "The proof of the pudding is in the eating and we are entering into a critical period for the agreement... Of course, we will not agree to extend the agreement unless we believe it has worked as intended. The next twelve months will be particularly critical..."
>
> "I will try not to predict the outcome of our evaluation as at this point only time and sales by U.S. firms will tell. It is my hope, however, that a year from now we will be able to report significant commercial results from the agreement."

In reviewing the four years this remedy has been in effect, we can readily determine the "proof of the pudding." From 1981 to 1984, the Japanese purchased $61 million in telecommunications equipment from the United States. During this same four-year period, the Japanese sold $1.948 billion in telecommunications equipment to the U.S. with exports of $941 million in 1984 alone. This means that during the four years of this agreement that for every $1 dollar in exports of U.S. telecommunications equipment to Japan the Japanese export $32 dollars worth of telecommunications equipment to the United States. The workers we represent cannot afford to eat any more of this pudding. Even

WITH THIS ABHORENT RESULT, THIS AGREEMENT WAS RENEWED AND CONTINUES TO BE HELD AS A SOLUTION TO OUR PROBLEMS.

THE TRADE AND TARIFF ACT OF 1984, DEFINES THE TERM "UNREASONABLE" WITH REGARD TO TARIFF OR IMPORT RESTRICTIONS TO MEAN ANY ACT, POLICY OF PRACTICE WHICH, WHILE NOT NECESSARILY IN VIOLATION OF OR INCONSISTENT WITH THE INTERNATIONAL LEGAL RIGHTS OF THE UNITED STATES, IS OTHERWISE DEEMED TO BE UNFAIR AND INEQUITABLE. THE TERM INCLUDES, BUT IS NOT LIMITED TO, AN ACT, POLICY OR PRACTICE WHICH DENIES FAIR AND EQUITABLE MARKET OPPORTUNITIES.

IT IS BEYOND THE REALM OF REASON TO SUGGEST THAT THE UNITED STATES TELECOMMUNICATIONS INDUSTRY, THE ACKNOWLEDGED WORLD TECHNOLOGICAL LEADER, IS BEING PROVIDED ANYTHING RESEMBLING FAIR AND EQUITABLE MARKET OPPORTUNITIES IN JAPAN WITH A 32 TO 1 TRADE FLOW ADVANTAGE ON THE PART OF THE JAPANESE OVER THE LAST FOUR YEARS. THE $914 MILLION TRADE SURPLUS IN TELECOMMUNICATIONS EQUIPMENT THAT JAPAN HAD IN 1984 WITH THE UNITED STATES VERY CLEARLY IDENTIFIES THE INEQUITABLE MARKET OPPORTUNITIES AFFORDED THE U. S.

IT IS EVIDENT JAPAN HAS USED THE NTT AGREEMENT AS A DELAYING TACTIC IN ORDER TO INCREASE THEIR EXPORTS OF TELECOMMUNICATIONS EQUIPMENT TO THE U. S. MARKET WHILE AT THE SAME TIME CONTINUING TO KEEP THEIR MARKET CLOSED. THE JAPANESE HAVE USED THE UNFAIR ADVANTAGE OF A PROTECTED HOME MARKET TO PROMOTE EXPORTS WHILE AT THE SAME TIME EXPERIENCING NO COMPETITION AT HOME.

WITH REGARD TO THE CHANGES IN U. S. TRADE LAW THAT CAME ABOUT AS A RESULT OF THE TRADE AND TARIFF LAW OF 1984, WE BELIEVE THAT IT IS RATHER EVIDENT FROM WHAT WE HAVE STATED THUS FAR, THAT THERE IS NO EVIDENCE OR APPEARANCE OF ANY MEANINGFUL CHANGES TAKING PLACE, THAT ADDRESS THE TRADE IMBALANCE PROBLEM WE ARE FACED WITH IN THE TELECOMMUNICATIONS INDUSTRY. WE HOLD THE VIEW THAT IT IS NOT ENOUGH TO NEGOTIATE TRADE AGREEMENTS OR FOR THAT

MATTER. IT IS NOT ENOUGH TO ENACT WELL-INTENDED LEGISLATION THAT ATTEMPTS TO ADDRESS OUR TRADE PROBLEMS ESPECIALLY IF SUCH LEGISLATION PROVIDES THE ADMINISTERING AUTHORITY WITH BROAD LATITUDE.

WE SUBMIT THAT IF OUR COUNTRY IS GOING TO COME TO GRIPS WITH OUR TRADE PROBLEMS, IT MUST BE PREPARED TO TAKE APPROPRIATE REMEDIAL ACTION IN ADDRESSING THE INTERNATIONAL TRADE PROBLEMS WE ARE FACED WITH. WE MUST NOT ONLY BE PREPARED TO TAKE APPROPRIATE ACTION, WE MUST TAKE THAT ACTION WHERE THERE IS JUST CAUSE. WE NEED TO IMPLEMENT NOW, WHAT HAS BEEN NEGOTIATED AND WHAT HAS BEEN LEGISLATED. IN THOSE COUNTRIES WHERE WE ARE DENIED MARKET ACCESS, WE MUST SHOW THEM THAT WE WILL TAKE ACTION. IN AN INDUSTRY SUCH AS THE TELECOMMUNICATIONS INDUSTRY, WHERE WE ARE COMPETITIVE, WE SHOULD HAVE RECIPROCAL SALES TO THAT COUNTRY. WE ALSO SUBMIT THAT IT IS INCUMBENT UPON OUR GOVERNMENT TO ENSURE THAT THOSE SALES GENERATE DOMESTIC EMPLOYMENT - EMPLOYMENT FOR AMERICAN WORKERS.

CONGRESSMAN FLORIO, WE HOPE THAT THIS HEARING AND THAT OTHERS, WILL BRING INTO FOCUS THE PROBLEMS BEING EXPERIENCED IN THE TELECOMMUNICATIONS INDUSTRY. WE HOPE THAT AS A RESULT, APPROPRIATE ACTION WILL BE TAKEN BEFORE IT IS TOO LATE.

THANK YOU.

Mr. **Florio**. Let me just say that I think it might be very appropriate to have this hearing close on your very succinct and very forceful statement that you have just concluded your remarks with. Because that really is the point that I am going to try to convey to our committee members and to the Members of the Congress; hopefully to the members of the administration as well.

But we are beyond the point of just hearing more and more reports about progress potential; that we really do face a crucial problem, not only in this industry, but in a whole lot of other industries that we are going to have to respond to.

So I thank you very much for your participation this morning, particularly your participation in stating what the concerns of the working people of this country are as a result of inaction that's occurred in the last number of years.

So I thank you very much and appreciate your participation.

Mr. **Wood**. Thank you, Mr. Chairman.

Mr. **Florio**. If there is no further business to come before the committee, the committee stands adjourned.

[Whereupon, at 12:50 p.m., the subcommittee hearing was adjourned.]

[The following statement was submitted for the record:]

March 28, 1985

STATEMENT OF JOHN MORGAN
ON BEHALF OF COMMUNICATIONS WORKERS OF AMERICA
BEFORE THE
SUBCOMMITTEE ON COMMERCE, TRANSPORTATION AND TOURISM
HOUSE COMMITTEE ON ENERGY AND COMMERCE

On many occasions in the last 7 years, I have had the opportunity to testify about telecommunications trade problems. In 1978, imports of equipment were relatively modest. We now know that the imbalance for 1984 is about $2 billion with Japan alone.

This important issue finally is getting the attention it deserves, since the unwillingness of the Japanese government to open that nation's domestic market is being clearly shown. In our view, the 1980 agreement between U.S. Trade Representative Reubin Askew and his counterpart, Dr. Saburo Okita, was fatally flawed. Prior to that agreement, we attempted to get the attention of our trade negotiators, with painfully detailed analyses of the flaws in the then-proposed agreement. It is no pleasure to note that our predictions have been borne out by very tiny market opportunities for American telecommunications goods makers.

The agreement to open Nippon Telegraph & Telephone Public Corp. (NTT) to other than Japanese goods was hailed in 1980 as real progress. We were highly skeptical. The actual purchases since then have been in the $130 million range; NTT has bought about $12 billion worth of goods in that time.

Last year's omnibus trade legislation contains the "Service Sector Access Authorization" provisions, which originated in your Subcommittee; one proper use of that provision would be firm direction to our Federal Communications Commission to examine its Part 68 equipment registration program and first, deny new registrations from Japan and other nations which are protectionist in their telecommunications systems, and second, terminate registration of goods from those countries.

We believe the old "free trade" totem is an idea which needs to be re-examined in the light of foreign protectionism. American trade law contains many provisons which are to allow our government to deal with unfair trading practices, such as dumping, subsidies and rigged standards. However, an Administration -- any Administration -- is reluctant to use the powers. A key defect of trade law is that the powers are discretionary. Negotiations drag on to the deadlines and result in no progress, only some headlines about what is termed "success."

Last week, Senator John Chafee introduced S. 728, which would put a quick end to the stalling tactics of Japan. This legislation is getting considerable attention, even if no one expects it to pass. In our view, this legislation would be effective in getting the Japanese to come to reality. It would halt the imports in 15 days and require genuine market-opening before negotiating a resumption of those imports. The most unusual aspect of the Chafee bill is its author, who has a record of trying to have free trade all around; he said last week that the time has come to take strong retaliatory action.

Some kind of prompt action is urgent; as of April 1, NTT is to be "privatized," and thus out from under any procurement agreement terms, as we understand the situation. We greatly fear that the U.S. negotiators will have been worn down by their Japanese counterparts -- once again -- and will accept the terms pressed on them. We believe it is entirely improper for the Japanese to hold to a position in which the Japanese equipment manufacturers will have active control of the standards-setting entity. U.S. trade negotiators should firmly refuse such terms and simply return home. If some kind of agreement does evolve by April 1, this Subcommittee should very closely examine it --- as we shall. Since CWA has a long-time active interest in this matter, we intend to "second-guess" the negotiators once again.

Before making any agreement, the Administration should inform the Congress and secure public comment -- public in this case meaning those of us who have an active interest.

We hope the FCC can work with your Subcommittee to recast its Part 68 equipment registration rules to help curb abuses by cutting back on access to the American market until our foreign trading partners begin to practice free trade.

JOINT HEARING ON TELECOMMUNICATIONS TRADE ACT OF 1985

TUESDAY, OCTOBER 1, 1985

House of Representatives, Committee on Energy and Commerce, Subcommittee on Commerce, Transportation, and Tourism, and Subcommittee on Telecommunications, Consumer Protection, and Finance,

Washington, DC.

The subcommittees met, pursuant to call, at 9:30 a.m., in room 2123, Rayburn House Office Building, Hon. James J. Florio (chairman of the Subcommittee on Commerce, Transportation, and Tourism) presiding.

Mr. Florio. Good morning.

The subcommittees will kindly come to order.

I would like to welcome all in attendance to this joint hearing on legislation dealing with trade and telecommunications. Today the legislative landscape is filled with trade proposals, all designed to deal in one way or another with the huge and growing U.S. trade deficit.

Many of the proposals could be helpful to deal with the trade deficit question and it is my hope that the Congress and the administration will give serious consideration and support to the proposal we are dealing with today.

In my opinion, there is no more compelling piece of legislation that cries out for support than the one we are talking about today.

There are really two special and unique reasons to justify the telecommunications trade legislation that is the subject of this hearing.

First, it was governmental action that created many of the trade problems that now plague the U.S. telecommunications industry, and therefore, our Government must take some responsibility for the solution. The flood of foreign telecommunications imports coming into the United States came in part as a response to a series of regulatory and judicial actions that culminated in the breakup of the AT&T system.

While the American telecommunications market underwent virtual total deregulation, foreign markets remained tightly controlled by government monopoly corporations and largely closed to U.S. telecommunications products.

As a result, the U.S. telecommunications trade balance has plummeted from a surplus of nearly $1 billion in 1980 to a deficit last year of more than $600 million. This year, our telecommunications trade deficit is expected to double over this $600 million figure.

The second reason I assign highest priority to the passage of telecommunications trade legislation is because we still have a chance to minimize the damage inflicted on this industry if we move very quickly. The U.S. telecommunications industry is either comparable or superior to its foreign competition in terms of quality, technology and innovation.

Our major deficiency is meaningful access to foreign markets. Unless access is obtained soon, however, U.S. firms may miss out on a major procurement cycle in Japan and elsewhere that may make American companies virtually non-competitive in the world market for the next number of years.

Only the threat of legislatively mandated retaliation can keep the pressure on Japan and other countries to open their markets to U.S. firms. To be credible, legislation must offer the certainty of responses if foreign markets are not opened, and this bill must be enacted quickly.

The bill we are considering today meets these tests. It requires the President to retaliate against foreign firms in this market if markets abroad are not opened to the United States. Furthermore, it has strong support in industry and has broad-based, bipartisan coalition of support of a majority of the members of the full Committee on Energy and Commerce.

It is, therefore, our intention that our committee should move quickly following this hearing to report this important bill, with the expectation that the House will take it up as rapidly as possible.

I am pleased to recognize the cochairman of this hearing, Congressman Wirth, who has been very active in this whole area of telecommunications and has been the lead sponsor of this legislation, the gentleman from Colorado.

Mr. **Wirth**. Thank you very much, Mr. Florio, and I am delighted to have this hearing occur and to have such a distinguished group of witnesses to go along with such a distinguished bipartisan group of sponsors of the Wirth-Florio bill.

The growing U.S. trade imbalance, as we all know, is an issue that has recently drawn an extraordinary amount of attention—and rightly so. The current trade trend has the potential to seriously hinder U.S. economic growth and prosperity for years to come. Unfortunately, one cannot simply point to a single factor as the cause of the trade deficit—if that were the case, the job before us would be much easier, indeed.

The strength of the dollar, for example, that has largely resulted from the huge budget deficits, has had a major impact on the ability of the U.S. businesses to compete abroad.

Consequently, trade legislation by itself is not the answer to maintaining international competitiveness and long-term economic growth. But Congress can help to encourage long-term economic growth by taking steps which do not close our own market, but which instead are directed toward opening foreign markets.

In developing legislation, we must chart a course that not only results in unrestricted access to foreign markets, but also assures that we do not again wander down the misguided path of protectionism.

The telecommunications industry provides the electronic freeways our information economy increasingly requires. In the United States, these freeways are nicely paved, allowing easy access to foreign suppliers. Unfortunately, in many foreign markets, the freeways are blocked by "Do Not Enter" signs—barriers that impede, and often halt, the progress of American telecommunications businesses. These electronic freeways must become two-way streets.

The issue of the steadily increasing U.S. trade imbalance in telecommunications is certainly not a new one for members of the Subcommittee on Telecommunications. Since 1981, this subcommittee has invested considerable time in an attempt to focus attention on the importance of international trade to the telecommunications industry's long-term health.

Failure to act now to address this issue will most certainly jeopardize the continued international preeminence of one of our country's premier industries. Indeed, its continued worldwide dominance and competitiveness are absolutely critical to the health and stability of our entire economy. It is an industry that holds our economic future in its hands as we progress to the electronic information age—an era in which everything from national defense to an efficient communications network to the education of our children will depend, to some degree, on the strength and vitality of the U.S. telecommunications industry.

I would like to thank Mr. Florio, Mr. Rinaldo and Mr. Lent, the two ranking minority members of the two subcommittees. We have a majority of the subcommittees and of the full committee as cosponsors of this legislation. I would also like to just pick up on the themes Mr. Florio mentioned as to why this legislation is important.

This legislation is key to both the U.S. our economy and world economy. Our market, as Mr. Florio has pointed out, through various regulatory and judicial decisions, is open. We are dealing largely with foreign governments where the government runs the PTT's. There has to be equity in that relationship.

I should point out that the U.S. telecommunications industry significantly does not want to close our markets. There are other pieces of legislation and other efforts attempting to close markets, that is not what this bill is about, that is not what the industry, which is broadly supporting this legislation, wants to do.

Also, this legislation does not single out any particular country. It is not focused on one country or any kind of a percentage and finally, I should point out that this legislation meets the test of flexibility and discretion which we believe the executive branch should have in dealing with the trade situation, discretion and flexibility are extraordinarily important.

We understand the need for that by the administration and that is built into the legislation.

I thank my good colleague from New Jersey, Mr. Florio, for such expeditious organization of this hearing with our subcommittee, and we look forward to working together in getting this bill passed quickly.

Thank you, Jim.

[Testimony resumes on p. 229.]

[The prepared statement of Mr. Wirth follows:]

STATEMENT OF
THE HONORABLE TIMOTHY E. WIRTH
U.S. House of Representatives

Good morning. Today's hearing will focus on H.R. 3131, the "Telecommunications Trade Act of 1985," which I introduced along with my good friend from New Jersey, Mr. Florio, and a bipartisan group of 25 other cosponsors.

The growing U.S. trade imbalance is an issue that has recently drawn an extraordinary amount of attention -- and rightly so. The current trade trend has the potential to seriously hinder U.S. economic growth and prosperity for years to come. Unfortunately, one cannot simply point to a single factor as the cause of the trade deficit -- if that were the case, the job before us would be much easier, indeed.

The strength of the dollar, for example, that has largely resulted from the huge budget deficits, has had a major impact on the ability of U.S. businesses to compete abroad. Moreover, the increasing volume of U.S. imports, the tremendous flow of foreign savings into U.S. financial markets, and foreign market barriers to U.S. suppliers have all contributed to the problem.

Consequently, trade legislation by itself is not the answer to maintaining international competitiveness and long term economic growth. But Congress can help to encourage long-term economic growth by taking steps which do not close our own market, but which instead are directed toward opening foreign markets, particularly in sectors which we are internationally competitive, such as telecommunications. H.R. 3131 is designed to open foreign markets in this vitally important area of international trade and our economy.

As late as 1980, the United States ruled the world with telecommunications products and services of extremely high quality. While the quality remains, the U.S. balance of trade in telecommunications has seriously deteriorated -- falling from a surplus of nearly $1 billion in 1980 to a deficit of over $600 million in 1984 -- in large measure because of barriers to foreign telecommunications markets.

In developing legislation to reverse this trade trend, we must chart a course that not only results in unrestricted access to foreign markets, but also assures that we do not again wander down the misguided path of protectionism. American telecommunications businesses are tremendously efficient and internationally competitive -- they are not, like some industries, seeking legislation to close the domestic market.

The telecommunications industry provides the electronic freeways our information economy increasingly requires. In the United States, these freeways are nicely paved, allowing easy access to foreign suppliers. Unfortunately, in many foreign markets, the freeways are blocked by "Do Not Enter" signs -- barriers that impede, and often halt, the progress of American telecommunications businesses. These electronic freeways must become two-way streets.

The issue of the steadily increasing U.S. trade imbalance in telecommunications is certainly not a new one for members of the Subcommittee on Telecommunications. Since 1981, this subcommittee has invested considerable time in an attempt to focus attention on the importance of international trade to the telecommunications industry's long term health.

Failure to act now to address this issue will most certainly jeopardize the continued international preeminence of one of our country's premier industries. Indeed, its continued worldwide dominance and competitiveness are absolutely critical to the health and stability of our entire economy. It is an industry that holds our economic future in its hands as we progress into the electronic information age -- an era in which everything from national defense to an efficient communications network to the education of our children will depend, to some degree, on the strength and vitality of the U.S. telecommunications industry.

Again, we must recognize that legislation such as H.R. 3131 won't cure all of the trade problems that this industry faces -- but it can sure help. It is Congress' responsibility to help those industries which do not merely seek protectionism, but instead seek to grow internationally and play a critical role in our economic future.

Government cannot design, manufacture and sell products for U.S. companies abroad. It can, though, create an environment conducive to exports -- and that is the goal of this bill.

In drafting this bill, we have attempted to develop a flexible framework for opening foreign telecommunications markets -- first, through negotiations, and then, if absolutely necessary, through firm remedial action. The purpose of this hearing is to learn from experts about their views on this bill.

Before we begin, I would like to take this opportunity to thank again the co-author of this bill, Mr. Florio, and also Mr. Rinaldo and Mr. Lent, the ranking republicans of our two subcommittees, for their help in putting this bipartisan bill together.

[The text of H.R. 3131 follows:]

I

99TH CONGRESS
1ST SESSION

H. R. 3131

To identify and reduce barriers to, and distortions of, international trade affecting United States suppliers of telecommunications equipment and services in interstate and foreign commerce.

IN THE HOUSE OF REPRESENTATIVES

JULY 31, 1985

Mr. WIRTH (for himself, Mr. FLORIO, Mr. RINALDO, Mr. LENT, Mr. SWIFT, Mr. MARKEY, Mr. LELAND, Mr. RITTER, Mr. BRYANT, Mr. DOWDY of Mississippi, Mr. SLATTERY, Mr. COATS, Mr. SCHEUER, Mrs. COLLINS, Mr. BLILEY, Mr. WALGREN, Mr. ECKART of Ohio, Mr. RICHARDSON, Mr. RALPH M. HALL, Mr. FISH, Mr. DASCHLE, Mr. ROSE, Mr. TAUZIN, Mr. CARPER, Ms. MIKULSKI, Mr. NIELSON of Utah, and Mr. AUCOIN) introduced the following bill; which was referred to the Committee on Energy and Commerce

---

A BILL

To identify and reduce barriers to, and distortions of, international trade affecting United States suppliers of telecommunications equipment and services in interstate and foreign commerce.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,

SECTION 1. SHORT TITLE.

(a) SHORT TITLE.—This Act may be cited as the "Telecommunications Trade Act of 1985".

Sec. 1. Short title.
Sec. 2. Findings and purposes.

Sec. 3. Definitions.
Sec. 4. Finding by the Secretary.
Sec. 5. Presidential determination.
Sec. 6. Federal Communications Commission implementation.
Sec. 7. Circumstances under which action not required.
Sec. 8. Action under this Act not exclusive.
Sec. 9. Report.
Sec. 10. Monitoring of effect of actions.
Sec. 11. Amendment of Communications Act of 1934.
Sec. 12. Effective date.

SEC. 2. FINDINGS AND PURPOSES.

(a) FINDINGS.—The Congress finds that—

(1) trade in telecommunications equipment and services is one of the fastest growing areas of world trade and is expected to reach $700,000,000,000 by 1993;

(2) the United States balance of trade in telecommunications equipment has deteriorated significantly in recent years, falling from a surplus of nearly $1,000,000,000 in 1980 to a deficit in 1984 of more than $600,000,000;

(3) the United States deficit in telecommunications equipment trade is the result of an increase in imports into the United States market for telecommunications equipment that greatly exceeds exports by United States suppliers of telecommunications equipment;

(4) the increase in imports into the United States market by foreign suppliers of telecommunications equipment is in part a result of the open nature of the United States telecommunications market;

(5) the recent decline in the rate of growth of United States exports in telecommunications equipment is in part a result of barriers to participation in foreign telecommunications markets that are characterized by pervasive government intervention (including restrictive practices governing market access and governmental favoritism of indigenous foreign suppliers);

(6) open and unrestricted access to foreign telecommunications markets by United States telecommunications suppliers is necessary and critical for the continued economic health, growth, and international competitiveness of the United States telecommunications industry and to the sustained growth and expansion of the United States economy;

(7) the provision of universal telephone service at reasonable rates for all Americans is closely linked to the continued economic growth of the domestic telecommunications industry;

(8) the continued economic growth and international competitiveness of the United States telecommunications industry is important and vital to—

(A) the long-term research and development projects and programs of the United States telecommunications industry,

(B) the rapid development and introduction into the marketplace of new and innovative telecommunications equipment and services for American residential and business telecommunications users,

(C) the development of efficient, reliable, and state-of-the-art telecommunications networks to serve the needs of American telecommunications consumers, and

(D) the maintaining of employment opportunities for United States workers in the telecommunications industry;

(9) while negotiations should be continued, significant efforts have been made and some progress has been achieved by United States negotiators to open the Japanese telecommunications market to United States suppliers of telecommunications equipment and services;

(10) significant efforts to open other foreign telecommunications markets to United States suppliers must be given equal priority by the United States;

(11) negotiated access to foreign telecommunications markets for United States telecommunications suppliers should be the means to achieve increased exports in telecommunications equipment and services;

(12) United States policies should be directed to opening up foreign markets and not the closing of domestic United States markets; and

(13) unless negotiations between the United States and a country to achieve open market access in that foreign country for United States telecommunications suppliers are successful, the United States should take action to restrict open access to the United States telecommunications market to foreign suppliers of that country as a means of achieving an open global market for telecommunications trade.

(b) PURPOSE.—The purpose of this Act is to identify and reduce barriers to, and distortions of, international trade affecting United States suppliers of telecommunications equipment and services in interstate and foreign commerce.

SEC. 3. DEFINITIONS.

As used in this Act—

(1) The term "foreign country" means a foreign country or a political subdivision, a dependent territory, or a possession of a foreign country, and includes an association of two or more foreign countries, political subdivisions, dependent territories, or possessions of foreign countries forming a customs union outside the United States.

(2) The term "foreign supplier" means—

(A) any legal entity the headquarters, or the primary control or operations, of which are located or based in a foreign country,

(B) any citizen or national of a foreign country, or

(C) any department, agency, or other government-operated or controlled organization of a foreign country,

that is engaged, in whole or part, in the business of providing telecommunications equipment or services; except that such term does not include the providing of telecommunications equipment manufactured in the United States.

(3) The term "equivalent telecommunications market access" means the opportunities for United States suppliers to provide telecommunications equipment and services in a foreign country that are substantially equivalent to the opportunities under which foreign suppliers of that country can compete in the provision of telecommunications equipment and services in the United States, as measured by the extent of barriers for entry and participation in the telecommunications market.

(4) The term "telecommunications market access enforcement action" means any action—

(A) which restricts or denies the provision of telecommunications equipment in the United States by foreign suppliers, or establishes terms and conditions on the providing of such equipment in the United States by such suppliers; and

(B) which is within the authority of the Federal Communications Commission under the Communications Act of 1934 (whether or not the Commission is otherwise exercising such authority).

(5) The term "Secretary" means the Secretary of Commerce.

(6) The term "telecommunications equipment" means—

(A) equipment which is primarily designed for use in providing or receiving telephone service, and

(B) equipment to which the authorization or registration provisions of part 2, 15, or 68 of title 47, Code of Federal Regulations, apply or which may otherwise be regulated (in whole or in part) by the Federal Communications Commission under the Communications Act of 1934.

(7) The term "telecommunications service" means the resale of telephone service—

(A) which service is of a type which may be regulated (in whole or in part) by the Federal Communications Commission or a State regulatory commission, and

(B) which resale is in connection with the provision of any service of a type not regulated by the Commission by reason of the decision under the decision and orders of the Commission in C.C. docket numbered 20828 (Second Computer Inquiry), as in effect July 1, 1985.

Any service of a type not regulated by the Commission by reason of such decision shall not itself be considered a telecommunications service.

(8) The term "telephone service" means—

(A) telephone exchange service and telephone interexchange service provided by a carrier (including service of any dedicated unswitched line), or

(B) service provided by any person (other than a carrier) to any other person or persons if such service is comparable to any such service provided by a carrier, as determined by the Commission.

(9) The term "United States supplier" means—

(A) any individual who is a citizen or national of the United States, or

(B) any legal entity the headquarters, and the primary control or operations, of which are located or based in the United States,

that is engaged, in whole or part, in the business of providing telecommunications equipment or services.

SEC. 4. FINDING BY THE SECRETARY.

(a) MANDATORY INVESTIGATION BY SECRETARY.—(1) Within 30 days after the effective date of this Act, the Secretary shall initiate an investigation to identify those foreign countries, if any, that are denying equivalent telecommunications market access. In carrying out the investigation, the Secretary may exclude any foreign country if the Secretary considers that the potential market in that country for United States telecommunications equipment and services is not, or will not, be substantial.

(2) In carrying out the investigation under paragraph (1), the Secretary shall—

(A) publish notice of the investigation in the Federal Register;

(B) provide opportunity for the presentation of views concerning the issues, including a public hearing within the 30-day period after the date of publication of notice under subparagraph (A); and

(C) consult with other appropriate Federal agencies and the appropriate committees of Congress.

(b) INITIATION OF INVESTIGATIONS BY PETITION.—(1)(A) Except as provided in subparagraph (B), any interested person may file a petition requesting the Secretary to make a finding regarding whether a foreign country is denying equivalent telecommunications market access.

(B) A petition may not be filed under subparagraph (A) within the 12-month period beginning on the effective date of this Act.

(2) Not later than 45 days after receiving a petition under paragraph (1), the Secretary shall—

(A) review the allegations in the petition; and

(B) on the basis of that review, decide whether to initiate an investigation under subsection (c).

(3) If the Secretary decides not to initiate an investigation with respect to a petition filed under paragraph (1), the Secretary shall—

(A) on the same day, submit to the petitioner, each House of Congress, and any appropriate Federal advisory committee a detailed explanation of the reasons therefor; and

(B) within 10 days after the date on which the explanations are submitted under subparagraph (A), publish notice of the decision, together with a summary of those reasons, in the Federal Register.

(c) INVESTIGATION AFTER PETITION.—If the Secretary decides to initiate an investigation with respect to a petition under subsection (b)(2), the Secretary shall—

(1) immediately publish notice of the decision in the Federal Register, together with the text of the petition;

(2) provide opportunity for the presentation of views concerning the issues, including a public hearing within the 30-day period after the date of publication of notice under paragraph (1) or on a date after that period agreed to by the petitioner; and

(3) promptly commence an investigation to find if the circumstance described in subsection (b)(1) exists.

During the investigation, the Secretary shall consult with other appropriate Federal agencies and the appropriate committees of Congress.

(d) PRELIMINARY FINDINGS.—Within 60 days after the date on which notice is published under subsection (a)(2)(A) or (c)(1), as the case may be, the Secretary shall make a preliminary finding regarding the investigation and shall publish notice of that determination in the Federal Register together with—

(1) the reasons for the preliminary finding;

(2) if that finding is affirmative, preliminary recommendations for enforcement actions to be determined by the President under section 5(a); and

(3) an invitation to interested parties to submit comments, during the 60-day period after the date of publication, regarding the preliminary finding and the matters referred to in paragraphs (1) and (2).

(e) FINAL FINDING.—Within 120 days after the date on which notice is published under subsection (a)(2)(A) or (c)(1), and after taking into account all comments submitted in response to subsection (d)(3), the Secretary shall—

(1) make a final finding regarding the investigation;

(2) if that finding is affirmative, develop final recommendations for actions to be determined by the President under section 5; and

(3) immediately submit to the President, and publish in the Federal Register, notice of the determination and all recommendations developed under paragraph (2).

(f) FACTORS TO BE CONSIDERED.—In finding under subsection (d) or (e) whether a foreign country is denying equivalent telecommunications market access, the Secretary shall assess—

(1) the competitiveness of the prices of telecommunications equipment and services sold by United States suppliers in the foreign country, and their marketing efforts in such country;

(2) the ability of United States suppliers to gain market access in such foreign country through joint ventures with the suppliers of such country through the establishment of manufacturing plants and facilities located in the foreign country, and the impact of such access on United States trade interests;

(3) the success of United States suppliers in providing telecommunications equipment and services in the foreign country, measured in comparison to their relative success in competing in other foreign countries, and in the United States, for like equipment and services; and

(4) the impact on employment in the United States telecommunications industry.

(g) EFFECT OF FINDING.—The denial by a foreign country of equivalent telecommunications market access shall be considered as unjustifiable, unreasonable, or discriminatory and a burden or restriction on United States commerce.

SEC. 5. PRESIDENTIAL DETERMINATION.

(a) GENERAL RULE.—Except as provided in section 7, if the Secretary makes a final affirmative finding under section 4(e)(1) that a foreign country is denying equivalent telecommunications market access for telecommunications equipment, telecommunications services, or both, the President, notwithstanding any other provision of law, must, within 60 days after the day on which notice of that determination is submitted to the President under section 4(e)(3), determine one or more telecommunications market access enforcement actions that the President considers necessary or appropriate to achieve equivalent telecommunications market access. The President shall notify the Federal Communications Commission of such action, and direct the Commission to implement such action.

SEC. 6. FEDERAL COMMUNICATIONS COMMISSION IMPLEMENTATION.

(a) GENERAL RULE.—The Federal Communications Commission shall, by rule or order, implement any telecommunications market access enforcement action which the President determines under section 5 to be necessary or appropriate to achieve equivalent telecommunications market access.

(b) PROCEDURE.—The Commission shall implement such action within 30 days after the President's determination regarding such action and, before such date, shall provide public notice and an opportunity for a public hearing.

SEC. 7. CIRCUMSTANCES UNDER WHICH ACTION NOT REQUIRED.

Sections 5 and 6 shall not apply in the case of the foreign suppliers of a foreign country if the President, during the 60-day period referred to in section 5, takes one or more of the following actions under subsection (b) or (c) (or both) of section 301 of the Trade Act of 1974 in order to achieve equivalent telecommunications market access in that country:

(1) Suspends, withdraws, or prevents the application of, or refrains from proclaiming, benefits of trade agreement concessions to carry out a trade agreement with that country.

(2) Imposes duties or other import restrictions on the telecommunications equipment of, or fees or restrictions on the telecommunications services of, that country.

(3) Restricts the terms and conditions of telecommunications sector access authorizations for foreign suppliers of that country.

(4) Denies the issuance of such authorization to foreign suppliers of that country.

SEC. 8. ACTION UNDER THIS ACT NOT EXCLUSIVE.

The taking of action under sections 5 and 6 with respect to the foreign suppliers of any foreign country to achieve equivalent telecommunications market access may not be treated as limiting, to any extent, the authority of the President to take action under any other law to achieve such equivalent access.

SEC. 9. REPORT.

If the President determines any action under section 4, the President promptly shall inform Congress of that action, together with an explanation of the objectives to be achieved by it, and have notice of the action published in the Federal Register. If an action to be taken by the President—

(1) differs from an action recommended by the Secretary under section 4(e)(2); or

(2) was not recommended under that section;

the President shall include in the notice a statement of the reasons for the difference or for taking an action that was not recommended.

SEC. 10. MONITORING OF EFFECT OF ACTIONS.

(a) MONITORING AND SUBSEQUENT ACTION.—After any action is taken under section 6, the Secretary shall annually review the effect of the action and determine whether the action is carrying out the purposes of this Act as well as its effects on interstate or foreign commerce and report to the

President and the Congress. If the President decides that the action—

(1) is achieving its objective, the President may suspend, or modify, the application of that action; or

(2) is not achieving its objective, may take further action as the President considers necessary or appropriate.

(b) NOTIFICATION.—The President shall—

(1) notify each House of the Congress of the results of each review made under subsection (a) and include in that notification an explanation of each suspension, modification, or further action, as the case may be, implemented under paragraph (1) or (2) of that subsection; and

(2) promptly publish notice of each such suspension, modification, or further action in the Federal Register.

(c) REVIEW OF MARKETS OF COUNTRIES EXCLUDED.—The Secretary shall annually review the potential market for United States telecommunications equipment and services in countries which have been excluded under section 4(a). The Secretary shall initiate an investigation under section 4(a) regarding any such country if the Secretary considers it to have a market for United States telecommunications equipment and services which is or will be substantial.

SEC. 11. AMENDMENT OF COMMUNICATIONS ACT OF 1934.

Title VII of the Communications Act of 1934 is amended by adding at the end thereof the following new section:

"TELECOMMUNICATIONS MARKET ACCESS ENFORCEMENT ACTIONS

"SEC. 712. (a) The Commission has authority to implement any telecommunications market access enforcement action which the President determines to be necessary or appropriate under the Telecommunications Trade Act of 1985.

"(b) Not later than 9 months after the date of the enactment of this section, the Commission shall issue regulations setting forth procedures—

"(1) which the Commission shall use in implementing any such Presidential determination, and

"(2) to the extent practicable, which shall be consistent with the procedures generally applicable under this Act.

"(c) The Commission may, in such regulations, identify specific types of telecommunications market access enforcement actions which may be available to the President. Nothing in this subsection shall be construed to limit the discretion of the President to the actions specified in such regulations.".

SEC. 12. EFFECTIVE DATE.

This Act takes effect on July 1, 1986.

○

Mr. **Florio**. Thank you very much.

Mr. Lent.

Mr. **Lent**. Thank you, Mr. Chairman. I would like to join in commending other members and yourself and Chairman Wirth for calling this hearing. In the past the United States has been the leader in production, consumption and sales of telecommunications equipment. As recently as 1980 the United States had a world trade surplus of $1.5 billion in communications equipment. However, during 1981 the United States experienced its first trade deficit in telecommunications. That deficit was valued at $608 million. Both subcommittees held hearings earlier this Congress to determine the cause of the U.S. telecommunications trade deficit. The Subcommittee on Commerce, Transportation, and Tourism on which I am the ranking minority member, received testimony that the U.S. telecommunications industry remains the world leader with respect to the most complex and advanced telecommunications systems and technologies.

So why did the United States have a deficit last year in the area of telecommunications? Testimony at the hearing overwhelmingly concluded that the cause of the deficit was a lack of equal market access. Although the United States telecommunications market is totally open, most foreign markets remain effectively closed. H.R. 3131, of which I am a cosponsor, attempts to open foreign telecommunications markets and thereby promote free and fair trade.

The objective of the bill is to remedy the present imbalance in access to telecommunications markets.

I would like to conclude my statement at this point, Mr. Chairman.

Mr. **Florio**. Thank you very much.

Are there other Members seeking recognition. The gentleman from Washington, Mr. Swift.

Mr. **Swift**. Thank you, Mr. Chairman.

I would commend both you and Mr. Wirth for cosponsorship of this legislation which seeks to do properly what so much legislation that is being proposed these days seeks to do in an improper and I think self-defeating way.

Language is a funny thing. It seems the debate on trade policy for the last 1½ or 2 years has been limited because we have only had two words to play with; "protectionism" is one of them and "free trade" is the other.

A number of us have been trying to introduce a different concept and have found that concept gets squeezed by our colleagues, by the administration and by the press into one of those other two words. But I don't believe it fits there. Let me suggest a new word, let me suggest the word "reciprocity," which in fact means an augmentation to free trade.

It merely means that if free trade is to work, our trading partners have to have their markets open to us as we make our markets open to them. Simple as that. It is not protectionism.

My belief is that had we been able to focus on this concept months ago, had the President said 1 year ago what he said last week, we would not be facing a textile bill which at this point looks as though it is inevitable; in fact, we would not be facing a whole list of other things.

The point simply is that we have a problem. And it is not protectionist to suggest that we have a problem. It is not protectionist to suggest that the solution to the problem is opening others' markets rather than closing ours. This concept is what I hope Congress, with the leadership of Mr. Florio and Mr. Wirth on telecommunications issues, will follow. We need to turn away from these proposals of protectionism which have grown out of the frustration we have all faced in being treated unfairly in some areas by some of our trading partners.

I thank the chairman.

Mr. **Florio**. Thank you.

The gentleman from Ohio.

Mr. Oxley.

Mr. **Oxley**. Thank you, Mr. Chairman.

Although I support trade reform in general, I am not certain I can support this particular approach of taking one item in isolation, telecommunications in this instance, without addressing our trade imbalance in other areas. I fear that this could have a long-term negative effect.

There is no question that we have faced a number of barriers in the telecommunications trade area and a number of foreign markets have indeed been closed to the U.S. telecommunications products. But I believe the better approach is to deal with telecommunications in a broader scheme of trade reform, and I intend to pursue that policy.

I specifically held off cosponsoring this legislation for that very reason. Recognizing that the approach that the Congress appears to be taking in textiles is the wrong approach, I am not certain that this effort is the approach that we want to take as well, particularly if we are going to deal piecemeal with the overall trade imbalance.

It seems to me that there is a better way and that is through overall trade reform legislation dealing with our trading relationships with other countries. Indeed, that effort is being made as we speak, and I would hope that a major trade reform bill will be before the full committee yet this month.

I would rather deal with the overall trade imbalance and not a specific area that may well come back to haunt us.

I thank the chairman for his indulgence.

Mr. **Florio**. Are there other members that seek recognition. The gentleman from Texas.

Mr. **Bryant**. Thank you, Mr. Chairman.

I would like to join the others who have thanked you and Chairman Wirth for moving rapidly in this area and bringing this matter to a hearing and, as you stated earlier, to a quick markup subsequent to this hearing.

I think it is unfortunate, in view of the monstrous problem we have in this area, that much of the rhetoric and much of the reporting about this matter has confused protectionism with the right, and the obligation, and necessity of our country to insist upon fair treatment with respect to world trade.

The fact is we have been the leading advocate throughout our history of free and fair trade in the world and we have been right.

We have not been participating in an international marketplace in which free and fair trade was the rule for quite some time.

It became painfully clear to most people 4 or 5 years ago that we were not participating in a free and fair trade world environment and the empirical data to indicate the extent to which we were damaged by that fact has been available to us for quite some time.

There are many Members of Congress and I think many people in general who are way ahead of us with respect to recognizing this problem and the need to act in this area.

I think it is critical that we recognize in the course of discussing this matter that those of us in Congress have an obligation to move forward and I hope we will do so, but this matter cannot be settled without the assistance of a President of the United States who is willing to do something.

This bill provides that the President of the United States, after certain findings, will have to do something. Admittedly even under the provision, I suppose he could find a way to do less than is best. We have not seen adequate action out of this administration. I think as a bipartisan viewpoint, I hope perhaps in the course of the hearing we can find out why and see what we can do to encourage them to do better in the future.

Thank you.

Mr. FLORIO. Thank you.

The gentleman from Virginia.

Mr. BLILEY. Thank you, Mr. Chairman.

We have before us today a bill designed to level the playing field of the world telecommunications industry. The telecommunications equipment and services industry is among the fastest growing areas in world trade. Yet the U.S. balance of trade in the telecommunications industry has deteriorated greatly in recent years from a surplus of nearly $1 billion at the beginning of the decade to a deficit of over $600 million in 1984.

I would not be nearly so disturbed by this deterioration if it were the result of fair, open competition. What concerns me is that this deterioration is in large measure a result of barriers to foreign telecommunications markets. If we are to preserve the health and future growth of our Nation's economy and the telecommunications industry, we must reverse this trend.

H.R. 3131 is not—I repeat—not protectionist legislation. It is not the first step toward recreating another Smoot-Hawley tariff or barrier. Rather, it is designed to do just the opposite. It is designed to build bridges to foreign markets for high quality American products, not to build walls to keep out foreign goods.

Quite frankly, this legislation is important not only to the Nation's economy as a whole. AT&T Technologies manufactures printed circuit boards used in state-of-the-art digital switching systems in my district. I know that each and every one of my colleagues is proud of the people he or she represents. I am especially proud. I know that the workers in the Third District of Virginia are capable of competing with and doing a better job than workers any where in the world—if they play the game by the same rules.

I don't think any of us would enter a major athletic competition if the rules were stacked against us. It isn't fair that the American worker is asked to play in a football game where the foreign team gets five downs, while his team gets only three. It is time to level the playing field in world trade. Let's stop telling the other side what play we are going to run before we tell our own team. Let's give the American workers—people in my district and yours—a chance to compete.

And you know what, Mr. Chairman, I am willing to bet that they will do more than OK.

Thank you very much.

Mr. FLORIO. Thank you very much.

Other Members? Mr. Slattery.

Mr. SLATTERY. Mr. Chairman, I am pleased to be a cosponsor of the Wirth-Florio bill and I want to congratulate you, and Chairman Wirth, and other members, and staff who have really worked hard to put together what I believe is a fair, thoughtful, and responsible proposal.

I support it, frankly, with enthusiasm. Let me tell you a little story that actually happened. In 1800, a Yankee trader by the name of George Cleveland, a trader from Massachusetts, entered Japan to sell some glassware.

The Japanese wholesalers at that time examined Mr. Cleveland's cargo of glassware piece by piece. Mr. Cleveland, in 1800, complained to the folks back home how much time it took for him to get his cargo approached, took 1 whole day in Japan, and he noted in his memos at that time in 1800 that in the United States he could have done the same thing in 1 hour.

I guess some things never change.

Today our telecommunications industry is a model of creativity, competitiveness, innovation, and quality. Yet in Japan and elsewhere, our traders; no matter how good their product, find themselves frozen in the eyes of foreign protectionism.

The bill before us is a careful, reasonable attempt to bring fairness to trade in telecommunications. It is a means to open, not close, trading markets. It is a means to protect our legitimate trading rights under law. I would like to commend both Chairmen Wirth and Florio for another reason. They know, as we all know in this room today, that our trade problems flow from far more than foreign trade barriers. Perhaps 80 percent of our trade deficit has nothing to do with import barriers, so trade legislation is clearly not enough.

The fundamental cause of our trade deficit is macroeconomic. The cycle of pain is clear. $200 billion budget deficits keep interest rates high, these interest rates attract vast sums of foreign capital which bid up the value of the dollar and the overvalued dollar provides a 30-percent advantage for foreign importers and a 30-percent disadvantage for American exporters.

It is a wonder we can sell anything in the international marketplace.

It is easy for American politicians to claim a profile in courage by attacking the Japanese. Yet our country would be far better off if we could claim that courage by attacking enormous budget deficits. It is a copout to pretend we can solve our trade problems without solving our budget problem. It is an absolute delusion to believe we can reduce our trade deficit without bringing the dollar down. And it is a mirage to envision we can bring the dollar down with intervention alone, without reducing deficits and without reforming the system of international finance.

I have suggested we take several steps to deal with the underlying problem. First, the President and the Congress, Democrats and Republicans, should develop a bipartisan plan to reduce the deficit and balance the budget by 1990. We should reopen the budget debate.

Second, as deficits are reduced, the Fed should proceed with a relaxed monetary policy.

Third, the President should work with other industrial countries to selectively intervene in international exchange markets.

And, fourth, the industrial nations should call for a new Bretton Woods Conference to reform the system of exchange rates.

Every day some $150 billion is traded on international money markets. That is 40 times the daily volume of action on the New York Stock Exchange. The system has become a speculator's paradise with the values of currencies rising and falling like the tides. We do not need to return to fixed exchange rates. We do need agreement to move toward stability.

The international movement of money should facilitate, not disrupt, the free flow of trade.

Mr. Chairman, neither party has a monopoly of wisdom on the subject of trade. From trade negotiating to international economic policy, the Reagan administration has proven that a do-nothing policy will not work.

It is important that Democrats, however, avoid the Trojan horse of protectionism, as embodied in many of the 300 trade bills that have been introduced.

Protectionism is bad policy, as history clearly tells us, and questionable politics. The Wirth-Florio bill, on the other hand, is an example of how to protect American rights without overkill.

It is fair, careful, and constructive. I hope we can work together to make it law. And, I hope we can work together to address the macroeconomic problems that magnify our trade deficit the President and this Congress have not found the courage to address.

Mr. Chairman, I yield back any time I might have.

Mr. **Florio**. Thank you. The time of the gentleman has expired.

I recognize the ranking minority member on the Telecommunications, Consumer Protection, and Finance Subcommittee, Mr. Rinaldo.

Mr. **Rinaldo**. Mr. Chairman, in the interest of time, I request unanimous consent to insert my full statement in the record.

Mr. **Florio**. Without objection, so ordered.

Mr. **Rinaldo**. I would summarize. I want to thank both of you and Chairman Wirth for holding this important hearing today on telecommunications legislation that is designed essentially to provide American telecommunications equipment manufacturers access to foreign markets.

I have long been concerned about the trade imbalance in telecommunications equipment. In 1980, the United States had a trade surplus of over $1 billion. By 1983, a couple short years later, we were a net importer and last year our deficit in this area exceeded $600 million, and I think that illustrates a dangerous trend.

In the closing months of the last Congress, my staff and I spent an extensive amount of time in studying this problem. We discovered that unlike other U.S. industries which had suffered reversals, the U.S. telecommunications companies had not sat on their laurels and indeed expended massive amounts of money on research and development. We remain the most technologically advanced in the world in this area.

The appreciation of the American dollar is, of course, part of our trade problem. Yet clearly there are other impediments as well, the most notable being institutional barriers that have effectively locked out American companies seeking to do business overseas.

Nationally owned foreign post office, telephone, and telegraph companies have traditionally produced domestically produced goods under the buy national escape clause on the GATT. The recently deregulated U.S. market in contrast remains the most open in the world.

I want to state for the record that I view the legislation under consideration as free and fair trade legislation and not in the least as any type of protectionist measure. We seek as our goal to provide American companies the ability to compete overseas and not to restrict foreign access to our markets.

There is no doubt that we have the capability to meet head-on challenges of international competition if we are operating on a level playing field. I think that is what most Members of this Congress want. I think that is what the American public wants. I think that is what we need so that we can compete equally with foreign manufactuers.

I thank you, Mr. Chairman. I yield the balance of my time.

[The prepared statement of Mr. Rinaldo follows:]

STATEMENT OF HON. MATTHEW J. RINALDO

I want to think both subcommittee Chairmen Wirth and Florio for holding this important hearing today on H.R. 3131, the Telecommunications Trade Act of 1985 and H.R. 2037, legislation which I introduced last April that is designed to provide American telecommunications equipment manufacturers access to foreign markets.

I have long been concerned about the trade imbalance in telecommunications equipment. In 1980, the U.S. had a trade surplus of over $1 billion. By 1983 we were a net importer and last year our deficit in this area exceeded $600 million.

In the closing months of the last Congress, my staff and I spent an extensive amount of time in studying this problem. We discovered that unlike other U.S. industries which had suffered reversals, U.S. telecommunications companies had not sat on their laurels and indeed expended massive amounts of money on research and development. We remain the most technologically advanced in the world.

The appreciation of the American dollars is of course part of our trade problem. Yet clearly there are other impediments as well, the most notable being institutional barriers that have effectively locked out American companies seeking to do business overseas. Nationally owned foreign post office, telephone and telegraph companies have traditionally purchased domestically produced goods without trade impunity under the 'but national escape clause' of the general agreement on tariffs and trade. The recently deregulated U.S. market, in contrast, remains the most open in the world.

The Rinaldo legislation, H.R. 2037, drafted last winter in close consulation with representatives of the administration, industry and organized labor would deny certification to equipment coming from countries that discriminate against American telecommunications equipment.

H.R. 3131, introduced some four months after my bill, takes the same approach. Both respond to an urgent problem, and I am pleased to note that Chairmen Wirth and Florio have scheduled a mark up for this week.

I want to state for the record I view both H.R. 3131 and 2037 as free and fair trade bills and not as protectionist measures. We seek as our goal to provide American companies the ability to compete overseas and not to restrict foreign access to our markets. There is no doubt that we have the capability to meet head on the challenges of international competition if we are operating on a level playing field.

We are certainly fortunate and having with us come very distinguished panelists, and I want to thank them for taking time out of their busy schedules to be here and look forward to their testimony.

Mr. FLORIO. Thank you.

Other gentlemen?

Mr. RICHARDSON. I, too, am a cosponsor of this legislation, and I think it is needed. I don't mind the label "protectionism." You can call it fair trade or equal access, but if protectionist means signaling to our industry and workers we are willing to protect them under any definition, I am a protectionist. I think the telecommunications area is one of the most glaring inequities of a case where a foreign government literally denies access to the United States, and I am talking about Japan. I don't think we should mince words.

Second, in New Mexico this last weekend there was evidence of this problem. A decision by INTEL not to expand because of Japanese dumping and lack of foreign access for our products resulted in the loss of many potential jobs. I think when it hits you firsthand you can see that we have a serious problem.

So, Mr. Chairman, I am here to listen, I am glad that this appears to have bipartisan support, the industry supports this legislation. Glancing at the opening statements it appears the administration is not going to be supportive. I regret it very much because I think the people in this country and the people in Congress and the industry, I think, are just talking about equity.

If anybody wants to call it protectionism here is one Member of Congress who is not going to take a back seat to be calling it protectionist. You can call me that if you like.

Thank you, Mr. Chairman.

Mr. FLORIO. Thank you.

The gentleman from Indiana.

Mr. COATS. Mr. Chairman, I ask also unanimous consent to submit my statement.

Mr. FLORIO. Without objection, so ordered.

Mr. COATS. As original cosponsor of this legislation, I favor it. I have made statements before about why and what my position is. I would thank you for submitting the statement to the record and I look forward to hearing the witnesses.

[The opening statement of Mr. Coats follows:]

OPENING STATEMENT OF HON. DAN COATS

I want to thank both of our subcommittee chairmen for calling this joint hearing today to further address the critical issue of trade in the telecommunications industry.

I have always considered myself a supporter of the principles of free trade, but I have become increasingly concerned over our government's rules and regulations that make it very easy for foreign companies to import their goods and services into our country. Equally disturbing is the practice of many of our trading partners in imposing rules and regulations that make it difficult, if not impossible, for U.S. companies to import our goods and service into those countries.

The problems besetting the telecommunications industry are similar to those being experienced by other U.S. industries; however, the telecommunications sector provides us with an example of various ways in which our economic interests are not being sufficiently protected by our current U.S. trade policy of by those agreements and institutions that are party to that policy.

We have deregulated our own telecommunications market and our domestic industry has aggressively sought new markets. As part of this deregulation, our markets are open to competition from foreign sources of telecommunications equipment. Concurrently, the Japanese are also deregulating their telecommunications system. Yet, highly restrictive rules and practices are effectively keeping U.S. telecommunications companies from competing in this new market.

The United States is projected to incur a trade deficit in the telecommunications sector of over $1 billion in 1985, which is nearly double the trade deficit for 1984. The basis for this increase is unfair trading practices and limited access to foreign markets.

H.R. 3131, the Telecommunications Trade Act of 1985, is designed to force negotiations in order to open foreign telecommunications markets to U.S. industries. The bill enjoys bipartisan support and is a good place to begin addressing the trade deficit problem. There has been strong rhetoric for some time and even threats of retaliation; but now it is time to provide incentives for foreign countries to end their unfair discrimination. H.R. 3131 appears to provide that incentive.

I want to welcome our distinguished group of witnesses, and I look forward to hearing their thoughts on the bill we have before us.

Mr. **Florio**. Thank you.

Mr. Markey.

Mr. **Markey**. Thank you, Mr. Chairman.

Work harder and make better products the man advised, and under other circumstances I would have seconded his thought, but the place was Tokyo and the speaker was one of Japan's most powerful corporate leaders, and the listeners, 11 Members of the U.S. Congress in August, were not amused. We had just concluded a discussion of the causes of and solutions to the Japanese-United States trade imbalance, that left each side with the impression that it had not been heard.

Tension over trade which we all want to alleviate continues to grow. In the Commonwealth of Massachusetts, we are feeling this as much as anywhere else. More than 15 percent of the goods manufactured in Massachusetts are for foreign export, ranking our State sixth in the Nation according to latest estimates from the Department of Commerce.

This gives us a major stake in the outcome of national trade policy. By now the Reagan administration's record on trade is a well-publicized disaster. In 1984 the merchandise trade deficit reached $123 billion, the largest trade deficit ever recorded by any country in history on its way to an estimated $145 billion for 1985. Our worst trade deficit is with Japan, $37 billion. But the trends are just as bad with the newly industrialized East Asian countries, $21 billion, Canada, $20 billion, Europe, $13 billion. At the rate of 25,000 jobs for $1 billion, we are losing manufacturing jobs faster than it takes to close a plant.

U.S. trade policy is out of control. The administration remains paralyzed by its own confusion between laissez-faire capitalism and an effective trade policy. Recently in a weak treatment to reassert some leadership on this issue, the President announced that he would initiate several investigations into unfair trading practices but given the size of the trade deficit, the President's actions are so minor that they are only—they only highlight but do not address the magnitude of the problem.

BEST CO[illegible]LE

It is apparent that with trade just as with his policy toward South Africa, the President is determined to do only as much as is necessary to prevent more effective action by condition.

To reign in the trade deficit while preserving free trade, we must deal with two major causes of our trade imbalance. The inflated value of the dollar, and the protectionist practices of our trading partners. The overvalued dollar makes imports cheap and exports expensive. Unfortunately, bringing the dollar back into line will be difficult as long as another, more familiar deficit, the $200 billion Federal deficit remains out of control.

When President Reagan pushes through a deep tax cut and an unprecedented arms buildup in his first term, he created budget deficits of monumental proportions that we wistfully recall the mere $60 billion deficits of Jimmy Carter's era.

The deficit keeps interest rates high, attracting foreign capital and driving up the value of the dollar relative to other currencies.

According to the Department of Commerce, since 1980 the dollar has appreciated almost 40 percent against the trade-weighted average, 14 major currencies. Now, the ability of U.S. industry to compete is being sacrificed for the President's continued intransigence both on taxes and military spending, the keys to unlocking our budget paralysis.

But at the same time, our trade problems are greatly aggravated because foreign countries openly engage in protectionism, openly, knowing that our administration is unlikely to retaliate. The United States, for example, has allowed foreign footwear to flood 77 percent of our market while countries like Brazil prohibit virtually all foreign shoe imports.

Similarly, the United States is virtually the only country in the world with a telecommunications system based on competition. Practically all other industrial countries are served by state-owned and state-controlled monopolies. Thus, foreign companies are free to compete with U.S. companies in the United States, which represents 40 percent of the world telecommunications market, but U.S. companies cannot penetrate the state monopolies of our trading partners.

I am sponsoring this legislation that Chairman Florio and Chairman Wirth have introduced. I think it is important legislation. I think that it is good legislation.

I have also introduced legislation that would make equal market access the goal of U.S. telecommunications trade policy.

That bill would establish substantial equivalent access, require the U.S. trade representative to investigate and identify telecommunications trade barriers, and to do other things, including negotiate away any of the remaining imbalances.

Without such an approach as presented by Chairman Florio and Chairman Wirth and the type of legislation which I have introduced, we don't have any hope of defeating protectionism and restoring free trade.

Sadly, this administration opposes this approach. Instead of joining the fight against foreign protectionism, the administration fights those of us on Capitol Hill, Democrats and Republicans alike, who think it is time that we forced our trading partners to stop protectionism practices.

The trade specialists with whom I met in Japan were all intelligent, well-meaning people who are worried about U.S. anger at the exploding trade deficit but as long as they can answer this anger more effectively with nothing more than an action plan, press releases, and other such nonsubstantial responses, then we have—they have little incentive to provide real access.

In the ring of world trade the Japanese, like so many of our trading partners, keep their guard up while swinging away at a U.S. opponent who leads with his chin. Yes, let's work harder and make better products but let's not lose sight of the fact that we are no longer living in a Norman Rockwell painting.

Today rules made by governments, not individuals, determine whether the principles that served America so well in the past are sufficient to compete in the global economy.

Free trade does not mean a free lunch. It is time for us to move on the Florio and Wirth legislation, and to make sure that we have an effective response that this administration refuses to implement.

Thank you, Mr. Chairman.

[The prepared statement of Mr. Markey follows:]

OPENING STATEMENT OF EDWARD J. MARKEY

Today we are exploring current trade policy and its impact on competition in the field of telecommunications equipment and service. Many of us are alarmed at the rapid deterioration of the nation's overall trade balance over the last 5 years. In 1985, we face the largest merchandise trade deficit ever recorded by any nation at any time in history—$150 billion. Moreover, or current account balance, which includes services, is nearly as bad—negative $104 billion in 1984, compared to plus $6 billion in 1981.

Trade in telecommunications has mirrored these trends. In just the last two years, the merchandise trade deficit in telecommunications has plunged into the red, costing as many as 40,000 jobs in 1985. Is this because American companies can't compete? No, U.S. companies are leaders in telecommunications. Is it because world telecommunications trade is decreasing? No, it is expanding rapidly.

The problem is a combination of an inflated dollar and the Administration's almost limitless tolerance of unfair practices by our trading partners. Indeed, it sometimes seems like the Administration thinks "free trade" means a "free lunch".

I have introduced legislation to deal with this problem. My bill, H.R. 3350, would make "substantially equivalent competitive opportunities" the measure of fair trade, and impose deadlines on negotiations to achieve that goal. I have also cosponsored H.R. 3131, the Wirth-Florio bill, which seeks the same goal through authorities available to the FCC.

We are concerned about the one-sided nature of the expansion in telecommunications trade. The United States has deregulated much of its market, which commands over 40 percent of worldwide sales. We appear to have opened up our markets unilaterally, with the obvious result that foreign companies are descending on us and competing vigorously for market share.

In the meantime, most other markets remain closed in various ways. Only Great Britain and Japan have moved towards a deregulated market, and the level of openness in these markets is in dispute.

I look forward to today's testimony, particulary with respect to the timing of deadlines, the powers of the FCC, and the prospects of progress in gaining reciprocal market access from our major trading partners. On the basis of the record, we will be in a position to fashion a bipartisan Telecommunications Fair Trade Act which will stop protectionist practices and let free trade bloom.

Thank you.

Mr. FLORIO. I would like at this point to insert a statement from Hon. John D. Dingell.

Statement of
Honorable John D. Dingell
on Telecommunications Trade
at the Joint Hearing by
the Subcommittees on Telecommunications, Consumer Protection and Finance, and Commerce, Transportation and Tourism

October 1, 1985

I want to commend my colleagues, Mr. Wirth and Mr. Florio, for holding this joint hearing today on telecommunications trade legislation.

Recent developments in the world market make telecommunications trade legislation especially urgent. Suppliers of telecommunications equipment based in foreign countries are rapidly making inroads into the U.S. domestic market.

The United States had a $560 million trade surplus in telecommunications equipment in 1982 before the AT&T breakup, but is projected to have a $1.1 billion trade deficit in 1985. This trade deficit is estimated to cost between 25,000 and 45,000 U.S. jobs.

Unfair foreign trade practices impose discriminatory barriers against the sale of U.S. telecommunications equipment abroad. These practices, including home supplier preferences in procurement, restrictive procurement approval procedures, local content requirements, and limitations or prohibitions on U.S. foreign investment, are partly responsible for the growth in our telecommunications trade deficit.

I am proud of the openness of the U.S. domestic telecommunications market. However, there is no reason that reciprocal arrangements should be denied to U.S. firms. The U.S. domestic telecommunications market should continue to remain as open as the foreign markets we are seeking to enter. The alternative is to see world market share - and jobs for U.S. workers - slip out of our grasp.

The legislation that is the subject of today's hearings contains measures to assure fair access to foreign markets that are closed to U.S. suppliers.

Our trading partners must be put on notice that foreign suppliers seeking to sell telecommunications equipment in the U.S. will have to show that the country of origin of such equipment has registration and approval procedures for the sale of telecommunications equipment by U.S. firms in their home market that are no more restrictive than the corresponding procedures they enjoy in the U.S.

In my judgment, foreign suppliers who cannot make this showing should face registration and approval procedures here in the U.S. that are approximately comparable to the procedures U.S. suppliers face in seeking to sell in their home market. That is fair and I intend to seek to ensure such equality and fairness.

I am examining pending trade bills to see whether they establish this policy in a clear and unmistakable fashion.

I would like to draw to my colleagues' attention a market access problem that has not received sufficient attention in trade discussions. That is the need to protect U.S. suppliers of undersea cable, communications satellites, and launch facilities from potential discrimination in the market for international communications facilities.

If we do not act now to provide protection, the potential discrimination could appear in a number of ways. New private U.S. satellite systems could be blackmailed by foreign governments (who must grant service authorizations for access to their countries) into procuring satellites or launch services from foreign suppliers. INTELSAT could retaliate against the U.S. decision authorizing separate systems by directing satellite procurement contracts away from U.S. suppliers. New foreign-based satellite systems could procure exclusively from their domestic sources. International undersea communications cables such as the proposed transpacific cable could be constructed through a system of structured procurement that gives priority to foreign industrial policy concerns rather than open market competition.

In April of 1984, in response to my letter concerning these matters, then Special Trade Representative William Brock expressed his view that foreign governments should not be allowed to condition the grant of operating authority for new international satellite systems on procurement quotas in the host countries. He said:

> INTELSAT requires open competitive bidding for its contracts - a practice which has made U.S. aerospace companies the major supplier of INTELSAT satellites. Were the same principle of open competitive international bidding applied to the procurement of telecommunications equipment by the proposed private satellite service companies, we could expect similar results.

U.S. facilities manufacturers and launch services should receive a fair opportunity to supply any international system providing communications services to or from the United States. The opportunities for U.S. suppliers to provide equipment or launch services required by international communications systems must be substantially equivalent to the opportunities under which foreign suppliers can compete in the provisions of such facilities and services.

Without tough measures to assure fairness in the procurement of international communications facilities and launch services, the growth of competition in the international communications market may cost jobs for American workers, worsen our already deteriorating balance of trade, and cause us to lose ground in a "high tech" industry where we are the acknowledged world leader.

Another issue that has received insufficient attention in trade discussions is the need to adjust some U.S. domestic policies in order to promote the international competitiveness of the U.S. telecommunications industry.

Many in Congress view telecommunications deregulation -- particularly, the AT&T breakup -- as an unreciprocated market-opening measure that has helped to drive our telecommunications trade balance into the red and has cost jobs for U.S. workers.

The Consent Decree not only broke up the Bell System; it also imposed sweeping restrictions on the business opportunities of the spunoff Bell Companies, including restrictions on their provision of advanced communications services and their ability to manufacture telecommunications equipment.

As pointed out in a recent domestic policy study by the Department of Commerce, these restrictions have international trade implications.

For instance, because of the difficulties that Bell companies have in providing advanced communications services, their large institutional customers have purchased increasing amounts of customer-premises equipment that provide these features. The Commerce Department found that while AT&T, GTE, ITT, Rolm and other U.S. suppliers have slightly more than half of the market for customer-premises switching equipment, Canadian, European and Japanese suppliers have increased their market shares rapidly.

In effect, the current policy of encouraging companies and customers to place technological enhancements outside the local public network has provided an unnecessary market advantage to foreign suppliers.

Correcting the balance by allowing the Bell companies more freedom to upgrade their networks without the restrictions imposed by the AT&T consent decree would help to reduce this advantage.

Thank you, Mr. Chairman.

Mr. FLORIO. Are there other Members seeking recognition?

If not, we will proceed to our witness.

Let me at the outset express my appreciation for the patience of our first witness, the Honorable S. Bruce Smart, Under Secretary for International Trade of the U.S. Department of Commerce.

Mr. Secretary, we welcome you to our committee. As with all of our witnesses, your full statement will be put into the record in its entirety, and you may feel free to proceed as you see fit.

I would be happy to yield to the gentleman from Colorado.

Mr. WIRTH. I thank the chairman for yielding.

I just want to offer a special word of welcome to Secretary Smart. I think this is his first venture, at least before the Telecommunications Subcommittee. It won't be his last. He has had a very distinguished career in private enterprise.

We are delighted to have you at the Commerce Department and helping us as we all work on this thorny issue.

Thank you, Mr. Chairman.

STATEMENT OF HON. S. BRUCE SMART, UNDER SECRETARY FOR INTERNATIONAL TRADE, DEPARTMENT OF COMMERCE

Mr. SMART. Mr. Chairman, thank you for the opportunity to appear before this subcommittee and comment on this particular bill. I was greatly interested in hearing the statements of members of the committee. The administration certainly shares the concern expressed by many of you that the budget deficit and the strength of the dollar are very fundamental to, and may override concerns in the trade area.

I would also point out that in this particular bill, the administration position is not yet established and so we come here to contribute to your deliberations and dialog without taking a pro- or anti-stance on the particular legislation.

We share your concern over the lack of access to foreign telecommunications markets. As a matter of fact, I think the President's concern over that general subject was made clear in his statement of September 23 and the position papers that accompanied it that we need to take action to redress exchange rates, we need to establish a fund to deal with predatory export financing, we need to protect intellectual property rights and particularly, we need to do something about even access, the unfair playing field if you will, through the self-initiating of section 301 actions and the call for a strike force to identify barriers to imports, and to suggest solutions to them.

That program focuses on removing unfair obstacles to trade and it is something that the Commerce Department has had a large hand in and will continue to have a large hand in.

We agree with your summary that the United States is indeed the technological leader in telecommunications and that it is unfortunate and not our fault that we have gone from a surplus of over $1 billion to a deficit of somewhere near the same amount in the matter of 4 or 5 years.

The high value of the dollar clearly has had some effect on that, as has the unilateral opening of our markets through the divestiture of AT&T, while others' markets, often under government control, have remained closed.

There are a wide array of formal and informal nontariff barriers to the sale of our telecommunications equipment abroad, and while Japan accounts for the bulk of the trade deficit, in telecommunications almost half of it in 1984, a number of other countries are a problem as well.

Our initial efforts have focused on bilateral negotiations with Japan. As you are aware, since January of this year we have been engaged in what are called MOSS [market-oriented, sector-specific] talks, which included telecommunications. In the case of telecommunications, the results have been more rapid than in some of the other sectors, at least in the early part of the year when Japan was under pressure caused by changes in the laws that included the privatization or at least the prospective privatization of NTT, their principal telephone company.

We were reasonably successful in that period of the MOSS talks. I would say the intense interest that Congress displayed, particularly the 92-nothing Senate resolution at that time was helpful in getting the attention of our negotiating partners.

We have had rather unusual experiences in this. U.S. representatives have appeared before the Japanese Diet, which is not normal. We have had extensive contacts with Japanese media and industry and their structural system has changed as a result. While it is not yet as open as the United States, it is at least more responsive to the complaints of exporters into its markets than it used to be.

In those talks, we focused on four areas of concern. We wanted to eliminate artificial distinctions in the law between types of telecommunications services, distinctions which sometimes were barriers to trade.

We wanted to reduce or eliminate testing and certification requirements and make sure they applied equally to all suppliers when they were necessary. Those standards we felt should be limited to a concern with harm to the network.

We wanted to make certain that their large telephone company, NTT, did not make unfair use of its ability to cross-subsidize between various activities in a way that would hurt non-Japanese suppliers.

Finally, we wanted transparency in Japanese rulemaking and standard setting.

We have had some success in each of those areas. U.S. suppliers are now able to self-certify that their products comply with Japanese standards. It is the first time that concept has been accepted in Japan.

Japanese standards have been reduced to harm to the network. The accounting procedures used by NTT, we believe, will permit it to be a fair competitor without cross-subsidy. And Japanese representatives of United States firms have been added to the committees and councils that set standards along with representatives of Japanese firms.

Despite these commitments, we are certain that we have to measure success by how well our companies can operate in practice, and by how many orders we get and how many dollars' worth of equipment we sell.

Having dealt with the hardware side of telecommunications, we have turned to the Japanese radio wave control law. I have participated in two MOSS deliberations as the chairman of the U.S. delegation. Our primary objectives have been similar to what we had in the first set of talks: to reduce the standards to harm to the network, or equivalent, and to bring licensing and product approval procedures into symmetry with those we already have here, or those we negotiated for terminal equipment.

In connection with radio, I would say our progress has been more limited. We are pressing for a decision by the end of the year. We have discussions going between groups of experts and only time will tell how successful we can be. Beyond those two phases, there is a third problem dealing with the Japanese and that is the problem of cultural or structural or attitudinal decisions made by families of companies or by the Japanese Government in buying practices that tend to favor indigenous suppliers at the expense of importers.

We have brought that up with them. It is a difficult matter. The word "karetsu" is used to describe it in Japanese. I think it probably will be a longer time before those practices and all markets will change in that country.

We have impressed on the Japanese the urgency that we make progress in order to avoid damaging laws or damaging emotions that could hurt our relationship with that very important defense and cultural partner in the West.

But again, the answer is ultimately going to be not how do laws change, but how do U.S. sales progress.

Japan is not the only country with which we have a telecommunications problem. We are concerned that so many countries use government control of their telecommunications systems to ensure that purchases go to domestic firms. We are about to embark on negotiations with the Federal Republic of Germany, and I am sure it will also figure prominently in the trade negotiations with Canada that have been requested by the Canadian Government.

The administration is studying the bills, the one here and the one in the Senate, but has not yet taken a position on either. There is much in H.R. 3131 that is positive. It focuses on opening markets rather than restricting access to the U.S. market. It encourages negotiation. It takes into account three factors that are often overlooked: first, the situation of U.S. multinationals selling to foreign markets through joint ventures; second, the fact that telecommunications trade problems are not limited to a single country—it is not barbing a single country; and finally the importance that U.S. firms make diligent marketing efforts abroad rather than assume that the government will hand them orders on a platter.

We have some concerns with the bill as it is now written. First of all, and perhaps most important, it requires the President to take retaliatory action rather than leaving him flexibility to decide what to do under the circumstances that may prevail at the time that action is considered. It also has the possibility of getting us crosswise with the GATT, requiring GATT-illegal actions which could hurt very much, or actions to open other markets by painting the United States in some way illegal in the world trading system, rather than conforming to it as we attempt to strengthen and broaden the GATT.

I think also we ought to think very carefully about using the FCC as a regulatory agency. It is an independent agency separate from the administration and reporting directly to Congress, and if it becomes an arm of retaliation it could be that we distort its purpose and among other things, we would increase even further the number of players in the trade policy game. I am new to the government but I have to say, this seems to be overwhelming already.

Those are not reasons to totally block this bill but at least things we are concerned with.

I think having stated that, I would say that the administration applauds efforts to find handles to open markets rather than to close them and if this bill can serve this purpose, it is entirely possible that in some amended form we could support it.

With that, Mr. Chairman, I would like to answer questions and take no more of your time.

[Testimony resumes on p. 263.]

[The prepared statement of Mr. Smart follows:]

STATEMENT
OF BRUCE SMART
UNDER SECRETARY OF COMMERCE
FOR INTERNATIONAL TRADE

Mr. Chairman:

Thank you for the opportunity to testify on telecommunications trade problems and, specifically, the Telecommunications Trade Act of 1985. The Administration shares your concern over our country's lack of access to foreign telecommunications markets and its effect upon our deteriorating balance in telecommunications trade. We place high priority on obtaining greater access to foreign markets for both products and services of the U.S. telecommunications industry, which is one of the most important sectors of our economy as well as one of our most competitive industries internationally.

The President's concern and determination to press for free and fair trade were made clear on September 23 when he announced a broad program to attack our trade problems. It includes action to redress exchange rate disparities and stimulate economic growth in the major industrial countries; it calls for the establishment of a $300 million fund to offset predatory export financing by other countries and it directs redoubled efforts to assure that the intellectual property rights of U.S. firms are protected. The President has already taken unprecedented action to attack foreign unfair trade practices through self-initiated Section 301 cases.

The major theme of the President's message is that we want and will work for free trade through bilateral and multilateral negotiations but that we will use the considerable powers already available to us to protect our rights and thereby stimulate our trading partners to dismantle their barriers to U.S. trade.

The Problem

Before discussing administration efforts to address market access problems in telecommunications, let me put these problems in perspective by summarizing the status of our telecommunications trade. The United States is widely regarded as the world's leader in production, consumption, technological innovation and sales of telecommunications equipment. However, our international trade position clearly does not reflect this leadership.

Until 1984, the United States traditionally registered trade surpluses in telecommunications equipment, which reached a peak of $1.1 billion in 1981. In a dramatic reversal of this trend, the United States posted a telecommunications trade deficit of $1.0 billion last year. The penetration of imports, about 8 percent in 1984, has more than doubled since 1981. The deterioration in the U.S. balance of trade in telecommunications is continuing in 1985. The high value of the dollar and uneven worldwide economic recovery have obviously been important factors, but by no means the only ones. The turnaround in the balance of trade is also attributable to factors specific to the telecommunications industry such as the unilateral opening of the U.S. market as a result of progressive deregulation and the divestiture of AT&T.

The unrestricted access to the U.S. market afforded foreign equipment producers is not available to U.S. suppliers in other countries' markets. Telecommunications markets in the industrialized countries, which are generally controlled by domestic government's post and telecommunications authorities, remain closed to U.S. suppliers through a wide array of formal and informal tariff and nontariff barriers. Although Japan accounts for the bulk of our trade deficit in telecommunications (49 percent of U.S. imports in 1984), the United States also has increasing deficits with Canada, Taiwan and Hong Kong. Although we continue to register a surplus with the EC, this surplus has been declining since 1981, and our market share is very small.

I believe these figures illustrate the severity of our trade problems in this sector. The Administration has demonstrated its concern over the imbalance in telecommunications market opportunities abroad by moving aggressively to negotiate greater market access for U.S. suppliers in both bilateral and multilateral contexts. The initial focus of our bilateral negotiating efforts has been Japan.

Administration Efforts to Correct the Problem - Japan

Since January of this year, U.S. negotiators have been engaged in intensive discussions with the Japanese to achieve full access for U.S. firms to Japan's telecommunications market as part of the market-oriented, sector-specific (MOSS) talks agreed to by President Reagan and Prime Minister Nakasone during their January 2 meeting.

These MOSS talks have focused on four market sectors - Telecommunications, Electronics, Forest Products, and Medical Equipment/Pharmaceuticals - and have as a goal the elimination of all barriers to foreign participation in these markets.

The discussions on telecommunications have been the most detailed and far-reaching to date because they coincided with Japanese legislation that went into effect on April 1, deregulating the Japanese telecommunications market and making the Japanese telephone monopoly, NTT, prospectively a private company. Our task, during the first phase of the MOSS talks, was to ensure that the legislation that eventually passed the Japanese Diet and the accompanying ordinances and regulations developed to implement the new laws did not raise obstacles for U.S. participation in the Japanese telecommunications market.

We have been reasonably successful in our negotiations for a variety of reasons. The intense interest displayed by Congress was a major one. These negotiations mark a new milestone in U.S.-Japan trade relations. Never before has the U.S. Government been so involved in the details of Japanese legislation affecting our trade interests. U.S. Government representatives appeared before key Japanese Diet Committees, had extensive contacts with Japanese media and industry representatives, and negotiated with government ministries, in detail, portions of the legislation and accompanying ordinances and regulations that affected U.S. trade interests.

This process must be characterized as a maturing of U.S.-Japan trade relations. The U.S. trade policy process permits Japanese Government and industry representatives ample opportunity to make their views known. Now that opportunity is increasingly available to the United States under the Japanese process. Structurally, the U.S. system still permits private Japanese interests much broader opportunities to involve themselves in our process than is true in Japan, but that difference, too, is narrowing.

What then did we achieve during the first phase of the MOSS talks on telecommunications? When our negotiations started, we had, essentially, four areas of focus on our agenda:

- to eliminate potential obstacles resulting from the artificial distinction in the Japanese law between types of value-added telecommunications services, a distinction which required a form of prior approval for one category and after-the-fact notification for others;

- to make certain that testing and certification requirements for equipment apply equally to all suppliers and include self-certification, based on a company's own test data (the same requirements Japanese companies face in the U.S.); and to make certain that the standards are limited to "harm to the network" as required of Japanese companies in the U.S.;

- to make certain that NTT and other providers of basic services do not make unfair use of the resulting revenues to cross-subsidize unregulated network services that would be competing with U.S. suppliers; and

- to insist on transparency in the Japanese rulemaking and standard-setting process with the opportunity for Japanese employees of U.S. firms to sit on the key rulemaking and advisory bodies in the telecommunications sector.

We have had some success in each of these areas. The number of planned value-added telecommunications services that will require prior approval and the potential burdens associated with obtaining that approval have been greatly reduced. In the case of equipment approval for attachment to Japanese voice, analog, and digital communications networks, U.S. suppliers will be able to self-certify the compliance of their products with Japanese standards. This is the first time this concept has been accepted in Japan and is similar to the procedure for Japanese equipment suppliers in this country.

Japanese standards have been reduced to only those designed to prevent "harm to the network". We have received assurances and expect that the accounting procedures and self-interest among NTT's Japanese competitors will ensure that NTT be a fair competitor. And finally, Japanese representatives of U.S. firms have been appointed as members of the Ministry of Posts and Telecommunication's key Advisory Council and its subordinate body.

Should disputes arise over this or other matters related to fair access for U.S. firms to the Japanese telecommunications market, problems will be reviewed by an ad-hoc committee chaired by officials of the Japanese Ministry of Foreign Affairs and composed of officials from the U.S. Embassy and the Japanese Ministry of Posts and Telecommunications. Our agreement states that this committee will formulate advisory opinions which will be observed by the Ministry of Posts and Telecommunications.

Despite these commitments, we must measure eventual success by how well these commitments operate in practice and by the success of U.S. companies in selling their equipment and services in Japan. For the next phase of the MOSS Telecommunications Talks, we have extended our discussions to the Japanese Radio Wave Control Law. I have participated as chairman of the MOSS Telecommunications Group in two of these meetings since June of this year. Our primary objectives in these talks are to ensure that competitive U.S. cellular products are given fair access to the expanding Japanese market and to bring licensing and product approval procedures fo. radio equipment into symmetry with those principles already negotiated for terminal equipment under Phase I of our negotiations.

We have made some limited progress in these areas to date. The Japanese Government has told us that a decision on new technical requirements and spectrum allocation for a new cellular system will be forthcoming by April, 1986. We are pressing for a decision by the end of this year. U.S. industry representatives have testified before the Cellular Subcommittee of the Telecommunications Technology Council on the technical merits of North American cellular standards and have held follow-up meetings with officials of the Ministry of Posts and Telecommunications to discuss their respective products and systems. On licensing and approval procedures for radio equipment, we are presently engaged in a series of 'expert' discussions with the Japanese to review and liberalize procedures for the acceptance of foreign test data and to revise technical requirements in order to facilitate acceptance of U.S.-verified test data and equipment. While these discussions are highly technical and complicated in nature, we hope that these issues can be resolved by the end of the year.

Beyond Phase II, if we are to be successful in removing all barriers to foreign access in Japan, we must be aware of and address those which are structural and attitudinal. Many in Japan have argued that U.S. concerns and assertions regarding such barriers are ill-informed, irrational or the product of prejudice. However, there is now some willingness to look at this area in search of solutions to the trade problem. For this reason, we intend to examine the effects of Japanese buying practices on foreign equipment sales, i.e., NTT supplier relationships, procurement within "family" companies, government procurement practices, etc.

At the same time, we also will raise the issues of government procurement of satellites and establishment of a joint mechanism to monitor the implementation of our agreements as well.

We have impressed upon the Japanese the urgency to make progress in our talks, and Secretary Shultz has been instructed by the President to seek a specific time limit to conclude our current discussions. They are fully aware that we will measure progress in the MOSS process by increased sales of U.S. products and by the perception by U.S. manufacturers that they have unimpeded access to the Japanese market. If we are successful in achieving our goals in these talks, we will have achieved a milestone in our trading relationship--and that of global telecommunications trade as well.

Efforts Directed at Other Trade Partners

Because of the magnitude of our deficit with Japan and increasing calls for action to reduce the trade imbalance, our market access problems with Japan have received a great deal of publicity. However, Japan is by no means the only country with which we have telecommunications trade problems. Many of our other major trading partners maintain telecommunications trade policies that severely restrict the ability of U.S. firms to sell equipment or provide enhanced services in their markets. These policies range from buy-national procurement policies on the part of government-owned or controlled PTT's, through restrictive standards, testing and certification practices, to market reserve regulations designed to promote domestic manufacture at the expense of purchases from abroad.

While Japan has been the principal focus of our trade negotiating efforts recently, we are not ignoring problems in other countries. We are about to embark on technical discussions with the Federal Republic of Germany to identify practices in that country which we believe restrict U.S. market access. Telecommunications problems undoubtedly will figure prominently in the trade negotiations with Canada that the Canadian Government proposed last week. We expect a new round of multilateral trade negotiations to begin next year--alleviating telecommunications trade problems with respect to both equipment and services will be a major U.S. objective. We are losing no opportunity in other bilateral and multilateral meetings to press for removal of telecommunications barriers. The attention of Congress appears to have been very useful in gaining the attention of our trading partners.

Discussion of specific provisions of the Bill

There is much in H.R. 3131 that is positive and that would assist our market-opening efforts. I note especially that it focuses on opening foreign markets rather than restricting access to the U.S. market and encourages the continuation of negotiation as the preferred means of achieving greater market access in the telecommunications sector. This is very much in keeping with this Administration's policy.

H.R. 3131 also takes into account three factors which are often overlooked: 1) the impact of U.S. multinationals selling to foreign markets through joint ventures or subsidiaries overseas; 2) the fact that our telecommunications trade problems are not limited to any one country; and 3) the importance of U.S. firms making diligent marketing efforts abroad.

Despite the positive aspects of H.R. 3131, there are provisions in the Bill that pose significant problems. A major concern is that the Bill would, in effect, require the President to take retaliatory action of some kind regardless of other factors that may come into play. By requiring the President to take action, either through the FCC or under Section 301 of the 1974 Trade Act, this Bill strips away the important flexibility the President has under current law to determine what, if any, action should be taken to open up the foreign market in question. This flexibility allows the President to gain maximum leverage by determining the type and degree of appropriate action on a case-by-case basis.

Furthermore, current law allows the President to consider the GATT ramifications when making a determination. For example, the United States would be required to offer compensation or face retaliation if bound duties were increased or other trade restrictions imposed.

In addition, if the President were to choose the FCC course of action and restrict market access to foreign suppliers through denial of product certification, we might violate our obligations under the GATT and the Standards Code, subjecting us to the threat of retaliation in other product categories. These important considerations should continue to be taken into account in each case in order to protect our exporters from potential economic loss.

I also question the provisions of the Bill regarding the FCC. We ought to examine carefully the implications of using an independent regulatory agency for retaliation against our trading partners. Setting this precedent and altering the FCC's authority may not be necessary or in our best interests in light of our present Section 301 authority. It would also further segment trade policy responsibilities within the U.S. Government.

Another area where the Bill might be improved has to do with negotiations. Although descriptions of the purpose of H.R. 3131 consistently refer to negotiations as the most desirable method of opening foreign markets, the Bill itself does not appear to provide a clear mandate for the Administration to negotiate the reduction or elimination of barriers to telecommunications trade during the period that the Department of Commerce is determining which foreign countries are denying equivalent market access to U.S. producers of telecommunications equipment and services. Providing such a mandate would be helpful.

Finally, there are a number of questions involved in the application of this legislation to telecommunications services. If, as I assume, the Bill is meant to apply only to enhanced services, often referred to as value-added services, this should be clarified in the Bill. Even so limited, it is not at all clear that we can obtain enough leverage by action or threats of action relating to equipment to pry open service markets abroad.

Many market opportunities in telecommunications services are not available overseas. In most countries, service offerings, rates and conditions are controlled by a government-owned monopoly. The usual forms of international involvement by telecommunications service firms are joint ownership of transmission facilities and cost-sharing agreements with their foreign counterparts.

However, U.S. firms have succeeded in entering foreign markets for some of the newer, value-added services which are developing the fastest in the United States because of our deregulated environment. U.S. firms have leadership positions in such services as satellite broadcasting, packet switching, production of electronic yellow pages and future services such as videotex.

In the long run, stirrings of telecommunications privatization and deregulation in countries such as Japan, the United Kingdom, Malaysia and Korea may open further the access of U.S. firms to these markets. In the meantime, however, most of the barriers to those firms will be found in foreign regulations on telecommunications rather than in the form of traditional trade barriers. It is unlikely that any action taken on the equipment side, such as increases in equipment tariffs, would give us sufficient leverage to liberalize substantially the telecommunications regulatory structures of our major trading partners in the near term. The reduction or elimination of identifiable non-tariff barriers in the telecommunications services field, and hence improved market access, is more likely to occur if the focus of action is on liberalization of trade in services, or if discussions are pursued from a regulatory policy and telecommunications policy perspective.

I thank you again for the opportunity to testify on the problems of this important sector and participate in the debate over the best means to resolve these problems. The Administration will continue to pursue seriously its bilateral and multilateral efforts at broadening telecommunications market access. Your continued concern about market access problems for this industry is commendable and I look forward to working with you in determining the optimal approach to achieve truly competitive opportunities for this industry. Our combined efforts should make it clear to our trading partners that we will no longer tolerate unequal market access in telecommunications.

Mr. **Florio**. Thank you very much, Mr. Secretary.

The committee, in light of the good turnout today, will adhere to the 5-minute rule in its questioning period.

Let me first of all express our appreciation for what I regard as your very positive statement with regard to this piece of legislation. I think you made the point that negotiations have gone very far in a technical way, and the key now is to ensure that those negotiations and the preliminary or tentative agreements are implemented in a meaningful way so as to impact on market share, the bottom line as you stated is sales.

Some of us happen to believe that this legislation is a very good impetus to make sure that the agreements that have been undertaken are carried out, obviously in an effective way, to result in greater market share.

As you pointed out, there are not only legal and technical concerns that we have pertaining to American access to Japanese markets, but there are also cultural and other concerns. So it is going to be important to measure the bottom line, that is whether there is enhanced access available to Americans.

My only difficulty with some of the points that you have made is that we think we have taken into account the concerns that you have expressed. For example, when you talk about the absence of discretion on the part of the President, the discretion that we provided to the President is in the nature of the remedies that he would be required, admittedly required, to undertake. We think we have given him sufficient discretion to formulate what the appropriate remedy is after the decision has been made on the acceptability of the access in the foreign market.

Likewise, with respect to your questions about GATT, we think we have taken care to draft this legislation in ways that will provide no opportunities to be in violation of GATT rules and we are fairly comfortable that we have been able to do that.

I ask on the MOSS talks, they are about to be concluded we understand; is that your initiative that the conclusion is now or is that industry's decision which you obviously are implementing; and why are they about to be concluded?

Is it because you think we have gotten all out of that process that you think we can or do you think there is no purpose in going forward with continued negotiations?

Mr. **Smart**. I think the answer to that is that it has been decided within the administration that a year is long enough in any particular industry sector to develop the changes that can be reasonably developed, and there is no purpose in giving them an indefinite life, in effect allowing the discussions to drag on.

We are trying to force the conclusion of the four sectors that we have now by the end of the year; then, put them into a monitoring and hold condition as we watch the effects of MOSS and maybe come back to them if we find ways they can be improved and consider taking on additional industry sector.

As I understand it—though, I was not here at the time when the four industries were selected a year ago—there was complaint from some U.S. industries that they were not included in the first four and four is about all we can handle at one time, and therefore there was a thought when we have done this as well as we can, we should go on to others.

So the deadline of the end of the year has been established.

Mr. **Florio**. The MOSS talks were expected to increase exports to Japan by $10 billion in the four sectors. Do you have what portion of that would be enhanced in telecommunications sales?

Mr. **Smart**. I do not, but if you allow me to consult with my expert behind me, who worked out the opportunities that we had in all Japanese markets if all barriers, including karetsu, were to disappear and it came to a rather large number of which telecommunications was a part, but a small part.

Let me check.

Mr. **Wirth**. Mr. Chairman, perhaps Secretary Smart might like to have Mr. Prestowitz join him at the witness table.

Mr. **Smart**. Mr. Prestowitz, who has been involved in all the MOSS talks from the beginning and is our counselor to the Secretary and Under Secretary on Japan, tells me that the telecommunications swing might be $1 billion.

Mr. **Florio**. Thank you.

I yield at this time to the gentleman from Colorado.

Mr. **Wirth**. Thank you, Mr. Chairman.

I would just like to make three comments in general about concerns raised elsewhere about the legislation.

One, the lack of hard focus in the legislation on Japan. This bill does not focus on any particular country or market. In fact, there are findings in the legislation which reflect what Secretary Smart has been discussing in part, the progress that has been made particularly within NTT, procurement agreements and so on that we have all been working on for such a long period of time.

Second, someone suggested this is like other pieces of legislation, potentially market closing. On its face, of course, that is not the case, because so many of the industry groups in the United States support this legislation and they want to keep these markets to Japan open.

Third, there has been some criticism that we should not have a piece of legislation that is sector-specific. I think this sector is so unique, that in fact we should have such a piece of legislation. These are three issues that have been raised outside the discussions this morning. The Secretary did not raise them, but I wanted to get on the record the fact that those concerns have been raised and what I think the responses are.

Secretary Smart raised three other concerns: one, flexibility; two, GATT; and three, the FCC as the agent of retaliation. On the flexibility issue, as I pointed out in my opening remarks, we have attempted in this bill to preserve discretion for the administration in a great number of respects, one on negotiations, that the President conducts through the administration.

Second, the administration determines if there is equivalent access and decides the severity of the remedy. If he determines that we have access to the foreign markets then the President can amend or repeal the remedy.

On the GATT issue which we have also been concerned about as the administration has been, let's remember the administration makes the finding and certainly we would not expect the administration to make any kind of finding that would be in conflict with GATT.

Third, the FCC as agent of retaliation, the FCC does not have discretion in this legislation. The FCC only acts and does what the administration tells it to do. So again, we have attempted, Mr. Secretary, to maintain the kind of flexibility that I know you are concerned about and that we have been concerned about that discretion be with the administration.

I know you recognize that and I would only close by saying that we appreciate the conciliatory nature of your testimony, and believe that we can work with the administration in fashioning legislation that has the flexibility we would all like to see, has the commitment to opening markets that we would all like to see, and does not have either quotas or specific countries targeted in them.

Those are the intents we have which I think you share.

I would be interested in any reaction you might have.

Mr. SMART. Mr. Chairman, I am encouraged by your recognition of the problems that we bring up and your feeling that this bill does not push us into a position of being, for example, GATT-illegal or introducing the FCC as yet another policy player in the trade area.

With that understanding, clearly our concerns over the bill if it is written with the intent and with the result that you describe, are reduced.

On the sector-specific problem, again it is general administration policy not to try to be sector-specific on bills. On the other hand, I think I would agree with you personally that this is a unique situation in that our market and ours and others' ability to serve it, and others' markets and our ability to serve them are rather well-balanced. So it may be that an exception to that policy could make sense in this instance.

Mr. WIRTH. We would invite, Mr. Secretary, from you and the Department and your "legal beagles" any suggestions on language that might clarify the GATT situation if you believe that we have not crafted that properly, or would clarify the FCC situation in which we believe in the legislation the FCC is only an agent, if in fact there is greater discretion there than you think it ought to have, we would appreciate your comments.

I think as rapidly as possible we would like to get them.

On the sector-specific area once more, this is an area in which we have so much government-to-government relationships because of the unique nature, not only of telecommunications but its relationship to national governments, and I think carving this off as a different kind of a phenomenon does merit the sector-specific nature of this legislation.

We look forward to hearing from you.

Mr. SMART. We will certainly take your invitation, if I can presume that that is what it is, under advisement. I am not the only player in trade in the administration, and as I say we do not yet have an administration policy, but we will certainly consider it and be back to you promptly with whether we should do just that or not.

Mr. WIRTH. Thank you very much.

Mr. FLORIO. The time of the gentleman has expired.

The gentleman from Ohio.

Mr. **Oxley**. Thank you, Mr. Chairman.

Just to follow up on your colloquy with the gentleman from Colorado, this bill is obviously on a fast-track and I think it is very important that the administration recognize that. If indeed they are to have, and you are to have, input into this bill, it is going to have to be quite soon.

I would certainly emphasize that as a friend of the administration and one who would like to see a carefully-balanced piece of legislation that will clearly pass out of this committee.

I think it is important that the administration rather quickly formulate not only the policy decision on this legislation, but indeed the efforts to amend it or to clarify it as need be.

Having said that, I would like to ask you to comment on some remarks made by Chairman Fowler at least a few weeks or months ago that would indicate that he didn't feel constrained to involve the FCC, or at least himself personally, in trade issues.

I am wondering if—from your vantage point—that has indicated a change of mind by the Administration or whether that was Mr. Fowler speaking personally, or whether you think that the FCC has any role whatsoever in formulating these major policy issues?

Mr. **Smart**. I think you catch me in an area where I am not certain what the chairman said. I would be concerned that an independent agency became involved in what is basically an administration responsibility and a congressional responsibility.

There are more than enough players in trade policy already without adding to their number, but it could be that in the narrow area that they are responsible for, there is some trade role that I am not familiar with.

Mr. **Oxley**. Have you testified on the Danforth legislation in the Senate?

Mr. **Smart**. No, sir, I have not. I believe the Department has commented on it in past months before I was onboard.

Mr. **Oxley**. If you had to choose between the Danforth approach currently pending in the Senate and the legislation in this committee, which would you choose?

Mr. **Smart**. I suspect in precisely the way they are written, neither, but both bills have considerable elements of promise in them.

Mr. **Oxley**. Which one has more promise?

Mr. **Smart**. I am not prepared to say.

Mr. **Oxley**. Thank you.

Thank you, Mr. Chairman.

Mr. **Swift** [presiding]. The chairmen apologize; they are going up to help Congressman Waxman with the quorum and they will be right back.

The Chair recognizes itself for 5 minutes.

I share Mr. Florio's reaction. Your testimony is most welcome and, I think, it is positive and helpful. If I could be frank, however, I would like to discuss the part of the legislation that requires the President to act. No administration likes that, but part of the problem here is that the Congress is frankly skeptical about the President's commitment.

It has taken us a long, long time to get the President to understand that suggesting that we work to get reciprocity is not just mere protectionism. His statement last week was very welcome, but it was late by a couple of years in my judgment.

It was pretty weak, though it included a lot of wonderful rhetoric. We have got strike forces now and we have war chests but while the rhetoric was Rambo, the substance was more out of Woody Allen. I think, nevertheless, it was welcome because even a rhetorical change on the part of the administration, is going to be enormously helpful as we begin to negotiate for reciprocity from our trading partners.

The concern in Congress is going to be that the President's conversion was a tactic to deal with the textile bill rather than something substantive or genuine.

What can you tell us that would help convince us or persuade us that that commitment is real and that provisions such as the requirement to act would not be necessary in this legislation?

Mr. **Smart**. I cannot speak for the first 4 years of the administration, because I was only confirmed in late July, but I can tell you that the policy statement and the text of the speech and papers that went out with it were carefully worked out over the period of time that I have been here, that they are subscribed to by all elements of the administration on a unanimous basis, that they represent the President's position and that we, who will implement that policy, are taking it extremely seriously.

I would not be comfortable in my current job if I felt that I was speaking for effect in the sense of impeding legislation instead of for effect on the trade deficit.

Mr. **Swift**. Do you anticipate that the people you work with now see the distinction that a number of us have tried to make in our opening statements between a pure protectionist kind of policy, which is rampant on the Hill, we recognize, and the kinds of things that we are suggesting and that this bill suggests as a way to deal with this problem? Is that now a pretty clear distinction?

Mr. **Smart**. I would say absolutely clearly, that we oppose bills that purely protect industries, that do not have comparative advantage under fair trade situations. But we have every intention of taking aggressive action to open markets where unfair trading conditions exist and, therefore, the objective of your bill is highly consistent with that policy and our concern is not with its objectives but with some of its details.

Mr. **Swift**. Well, that is, as well, good news, because I think part of the frustration that many of us on the Hill is that when we have raised these concerns about reciprocity we have been quickly pigeonholed a protectionists. We really have a lot of problems, I think, communicating our concerns.

I am persuaded that we are as far down the protectionist path in Congress as we are largely because we haven't been able to get a response on this important distinction. Your statement is very good news, indeed, and I hope we can continue to work with the administration in that direction because, I think, that is the only way we are going to ultimately prevent us from falling off the edge of the world in pursuit of purely protectionist policies.

The Chair yields back its time and recognizes the gentleman from Indiana.

Mr. **Coats**. Thank you, Mr. Chairman.

Mr. Smart, I, like the others, appreciate the positive aspects of the administration's position on this particular piece of legislation and would also like to question you a little bit further about the negatives and particularly in the area of flexibility.1

Do you feel that there are possible amendments or adjustments to this legislation that would basically retain the same thrust of where, I think, we are both trying to go but that could be engaged here to gain the administration's support for this effort, and specifically would you address that in relation to the timetable that is set forth in terms of a negotiating period and the followup imposition of sanctions that might come through the regulatory agencies?

Mr. SMART. Without having had much experience in drafting bills, the timetable, in other words, the provision of an opportunity for negotiations in the bill, would seem to me to be a desirable feature of it.

In the flexibility area I become concerned with anything that mandates an action, even if it is a moderate action, by a President under circumstances in which there may be conditions outside of the specific area addressed by the bill which may affect what action he should take. His judgment may well be based on classified information that he can't share with the public. Such information may cause him to not wish to pursue the remedy that is called for in the legislation, in the national interest.

I think that the flexibility problem is perhaps the most difficult one to address in wording a bill in a way that would make it an attractive addition to our arsenal of weapons to open markets.

It is certainly something that we will take a look at and see if there are some suggestions that can be brought forward just as I told the chairman we would consider when we should send our lawyers down here to work with you on this.

Mr. COATS. Well, I think that is important, because while I think we would be supportive as a committee of the legitimate need for flexibility in terms of national security areas or areas outside the scope of this bill, we are concerned that such a provision is used as a loophole or an escape clause for essentially no action and so, therefore, the drafting of that becomes very, very critical.

If our trading partners perceive that that is a gap wide enough to effectively circumvent the intent of the legislation and then we haven't really accomplished anything. I think it also does not put you in a very good negotiating position.

I hope you recognize there has to be some very careful, narrow exclusions allowed for that flexibility in the areas on which we would both agree. Absent that, we are really not any further than we are now.

Mr. SMART. I can understand your concerns and the concerns of negotiators on one side, the President on another, the trading partners on the third, and I think you are right, that careful language would be required to address all of those.

Mr. COATS. In that regard it probably would be helpful then if your attorneys and our staff and all of us could work around the table together rather than separating ourselves because it appears that we are after a common objective here.

BEST CO [illegible] BLE

Mr. Smart. As I said before, if I were the only trade policymaker in the Government, I would have an easier time making a commitment than I do at this time.

Mr. Coats. I hope that was not the end of my 5 minutes. I think it was the end of the previous gentleman's 5 minutes.

I have lost track of the time here. But if the Chair would allow a further question that points to an additional problem. You really can't address it but you have raised a problem, and I hope it is something that this administration and this committee will continue to address. In my opinion, we speak with too many voices about what our trade policy is, and there is no one focal point within the administration or in past administrations as to what U.S. trade policy is.

We hear coming out of various agencies conflicting information as to our trade posture, as to our trade stance, as to what remedies we are going to apply, and a number of other things. I would hope that we could move forward in the administration toward a more unified, central focus, elevating trade as a priority, speaking with one voice. I would think that would also help in the negotiating process.

One further question, if I could. The bill calls for between the date of enactment and December 1, 1986, the President to negotiate with foreign countries to eliminate these discriminatory practices. It is now October and we are a ways away from having this bill enacted.

It is my feeling that one of the things you might seek is a little flexibility in terms of that negotiating time, yet again, we are caught betwixt and between. You extend it out too far and you don't have the right pressure to bring about an agreement.

Can you comment in terms of whether or not you feel that the December 1, 1986, date is a proper amount of time to negotiate—approximately what—14 months?—whether that should be shortened, extended, whatever?

Mr. Smart. I don't think I have a strong opinion on it at the moment either way. You certainly should not have such a long time that it is postponed beyond the term of office of those of us in the current administration because then we won't even begin with it and on the other hand you should not give us 30 days because we can't get organized in 30 days and develop the issues.

I don't have a real problem with that at this time.

Mr. Coats. All right.

Mr. Smart. Within an order of magnitude, I think, you are probably reasonable. I would like to point out, though, that the administration does have a single individual who speaks for trade policy and a focus for trade policy and that is the President, but clearly once you get into the various executive departments, a great many of them have a stake in trade policy.

Mr. Coats. I am not suggesting they should not be players but it appears that sometimes they are attempting to make policy that goes beyond their jurisdiction and, I think, it leads to a lot of confusion as to what our Nation's trade policy is and often they are contradictory to each other.

I guess I would suggest that those contradictions and discussions ought to be held among themselves and a policy adopted and voted on rather than scattered policies floating around.

The next day someone has to call a press conference and contradict and say, no, that is not our policy.

Mr. SMART. Having come from the peaceful, even placid sector where a CEO can describe his own organization chart with impunity, I have been amazed at the perils of the Federal Government sometimes described as turf wars and also extremely pleased with the way the interagency process has worked, both at the level I work at regularly, the so-called TPRG, and also at the Economic Policy Council chaired by Jim Baker in developing this whole plan.

So that what I thought was going to be a tremendous problem of coordination has been a rather collegial one.

Mr. FLORIO. The time of the gentleman has expired.

The gentleman from Texas.

Mr. BRYANT. Thank you, Mr. Chairman.

Mr. Smart, I don't know really what good it does for us to have you here today and to have this consideration because of your short tenure with the administration. Your testimony is to some extent deja vu for me. Just a little more than 2 years ago we had the Secretary of Commerce, Mr. Baldrige, testify before this committee in which he acknowledged, and we had serious trade problems, that we had serious problems in defining what our trade policy, if any, was and some significant problems with regard to coordination of trade policy within the administration.

It is 2 years later; there have been no changes. There is still no trade policy. No one has laid one out yet other than to lay out sort of a religious theology of free trade which we examined, which has no specifics to it and has essentially no meaning except that we are losing worldwide.

Here you are today telling us that you are not sure what bills the administration is going to support and you don't know whether you are going to support this bill or not and so forth. I don't know that this reflects poorly upon you, but you are here today to take the heat for the administration. I don't know who else to say it to.

I guess my first question is, do you support this bill or not or have you decided, and if you haven't decided, when are you going to decide?

First, do you support the bill?

Mr. SMART. We have not decided whether we will support the bill or not and as I think I said earlier, I will go back and get a quick reading as to whether we wish to work with you to see whether we can put it in a position that we can support it.

My recommendation will be that we do work with you but it is only one recommendation and I cannot tell you how it will be received by those who will make the final decision.

Mr. BRYANT. As the Chief with regard to International Trade of the Commerce Department—you are the Under Secretary for International Trade, I believe—what legislation does the administration support with regard to telecommunications, electronics, or any other sector of our economy with regard to foreign trade?

Mr. SMART. We have supported in the President's statements and the papers attached to it a number of modifications of existing trade laws to make them more effective in our efforts to open markets. I don't have the list in front of me, but I think of one particularly, an effort to try to define a nonmarket economy's pricing practices so that we can deal with them more effectively under antidumping and countervailing duty laws.

Mr. **Bryant**. Do you recall who the sponsor is or anything about the legislation so I can find it?

Mr. **Smart**. I don't know that it is in legislative form yet.

Mr. **Bryant**. So as far as you are aware, you are not aware of any pending legislation that the administration supports?

Mr. **Smart**. I am not aware of any pending legislation that the administration supports.

Mr. **Bryant**. Are you aware of any legislation they have drafted that is about to be submitted to us?

Mr. **Smart**. I do not believe any specific legislation has been drafted at this time.

Mr. **Bryant**. With the knowledge you have only been on the job since July, but I don't have anyone else to address this to——

Mr. **Smart**. I understand your frustration, sir, and I think we have come quite a long ways in the direction of having an aggressive trade policy. I would disagree we have no trade policy.

Mr. **Bryant**. I would give you an opportunity to articulate it at this time. What is your trade policy?

Mr. **Smart**. Our trade policy starts with the identification of the causes of the trade deficit, the first and foremost of which is probably the fiscal deficit which we need to continue to work to reduce. It is compounded by international monetary concerns and we have had——

Mr. **Bryant**. Since I am running out of time, we all agree with the situation. My question is what is your policy for addressing the situation?

Mr. **Smart**. Our policy is to do the best we can to get the deficit down, to get the monetary system working somewhat more efficiently, to open markets where they are unfairly closed to us and to aid U.S. companies in becoming more effective exporters.

Mr. **Bryant**. Now, the only thing I guess I see which might be new; you said you are committed to a policy of opening up presently closed foreign markets somehow. Your testimony says that since January you have been undertaking dramatic efforts with the Japanese.

My concern is that we have known of the fact that we were in trouble in the trade department for 4 or 5 years now and we have known of the deficit in the area of telecommunications since early this year, yet no legislation has been proposed, nothing new has been suggested by the administration and what you bring to us today really is a report on some negotiations in which, I think, you claim you have reduced Japanese standards to only those designed to prevent harm to the network, you have allowed them in certain instances where Americans can now sell certified, prior approval and potential burdens are greatly reduced, so on, so forth.

This isn't adequate for those of us who go home to our districts on a regular basis and find people who can't have jobs anymore or read the newspapers and are horrified to see what our trade status is.

Again, you have only been there 2 months. It is hard for me to give you a speech except to hope maybe you will take some of it back to whoever it is up there who is not making any policy right now and ask them to make some.

Mr. Florio. The time of the gentleman has expired.

Mr. Tauke.

Mr. Tauke. Thank you, Mr. Chairman.

I apologize for not being here for your testimony. We had another subcommittee meeting and so I can't ask too many questions about that, but I hope to review it in the record.

I do have a couple of other matters that I don't know that you have touched upon. When we talk about trade, it occurs to me that obviously there are a variety of things that we might pursue in addition to the kind of legislation that is discussed here.

I might just say parenthetically not everybody in Congress is racing down the protectionist road. Even some of us who are in the party of high tariffs, the Republican Party, aren't ready to race down the protectionist road yet.

But in any event, I have noticed that as a result of the AT&T breakup that 50 percent of the telecommunications assets in this country are in the Bell operating companies and yet we don't permit them to enter into the manufacturing of telecommunications products.

It would seem to me that it is not very smart, if you think you are losing a trade war in the telecommunications equipment arena to put 50 percent of your asset base off limits for manufacturing.

Now, apparently the Justice Department thinks that it would be fine for the Bell operating companies to do things other than get into the telecommunications business but there does not seem to be much interest in permitting the Bell operating companies to be engaged in the manufacture of telecommunications equipment.

Now, this may be a little out of your area, but do you think that it might be wise for us to, as we explore this issue of trade in the telecommunications arena to perhaps allow our probably most capable entities to first of all meet the domestic markets so we won't have to rely on imports and, second, perhaps try to sell overseas?

Mr. Smart. I don't know whether I should make reference to mental telepathy at the moment or not, but Secretary Baldrige and I had a conversation on this particular subject of Bell operating companies this morning. As we were looking how to go about identifying on a very systematic basis, first of all, the barriers to our exports, what other countries are doing to us; second, what we may be doing to them that we would have to consider in any bilateral negotiations; and third, what we are doing to ourselves to get in the way of exports, under which that particular subject would fall and which we will take a look at.

They are, indeed, restricted from——

Mr. Tauke. I am glad to know it was a subject of discussion. I would be curious to know whether you had any feelings about perhaps communicating views on this issue to the Justice Department or any other appropriate agency.

Mr. Smart. It seems to me unreasonable to talk in terms of other people opening their markets when we are tying one of our own hands behind our back and letting our companies proceed to sell into those markets.

So my views would be similar to yours.

Mr. TAUKE. I appreciate that comment and I might say parenthetically that at the same time I make those comments, I am fully aware of the reasons for preventing the Bell operating companies from getting into this business as part of the modified final judgment that was made in the court case breaking up AT&T. Obviously, there would have to be protections in order to ensure that the Bell operating companies getting into this business did not pose unfair competition for anybody, but I do think that it is important for us to look at those areas where we tie our own hands behind our back.

The second area that I would like to explore is—maybe it is more of an observation; I am wondering if you agree—generally, I think it is very unwise for us to point our finger at an individual country when it comes to trade relationships but in the telecommunications arena it seems to me that there is essentially only one market in the world today for advanced telecommunications equipment, that even the Western European market is simply not as advanced as the Japanese market and it is a Japanese market and the U.S. market that are the major markets.

When you, as a result, talk about telecommunications marketplaces, is it fair, in your view, or is it not correct for us as policymakers, to really in this case focus on the Japanese market simply because of the nature of that market, the nature of the American market and the nature of the rest of the world marketplaces or, putting it another way, we could win access to all the other marketplaces in the world, but if we didn't get access to the Japanese marketplace, we wouldn't have won much.

Do you agree with that assessment?

Mr. SMART. No. I think that is overstating the case. I think at the moment the Japanese market may be the biggest single opportunity, but I doubt that Western Europe is very far behind it in total size and if you look at the world as it will develop over the next 20 years—China, India, South America—a lot of other places will become very, very significant markets for us and can be immediately if we can get them open.

We need to look at this on a world basis not just Japan.

Mr. TAUKE. Could I have a followup to that?

Mr. FLORIO. By unanimous consent, the gentleman is granted the additional time.

Mr. TAUKE. Thank you.

I concur those other markets are very large and the future will be important for us but when you talk about being on the cutting edge of the developments in the field and being able to build for a market that is on that cutting edge, there is no other market that will absorb the newest products that will demand the best technology, will provide the resources to support that aspect of markets' development, it seems to me.

Mr. SMART. My expert on my left whispers in my ear that Europe is just as much in the forefront as Japan and I forward his comment without having personal knowledge of the subject in that depth.

Mr. FLORIO. Time of the gentleman has expired.

Mr. TAUKE. I appreciate it. Thank you.

Mr. FLORIO. The gentleman from Kansas.

Mr. SLATTERY. Thank you, Mr. Chairman.

Mr. Smart, we have had 5 years of this administration and we have had 5 years of rising trade deficits that we are all aware of and 5 years of pain for farmers and a lot of workers in this country that have lost their jobs. The whole thing, frankly, seems a little bizarre to me. I don't hold you personally responsible because you haven't been on the job long enough, but I find it really interesting that apparently the administration in 5 years has not found one bill that they can support in this area and I am just wondering, does the President, in your view, understand that the longer he delays in doing something in this area, the stronger the pressure becomes that we respond in an overkill-type fashion?

Is he sympathetic to the reality of what is happening in this country right now? Or do you know, Mr. Smart?

Mr. SMART. He is fully aware of the seriousness of the trade problem and I can assure you that those who advise him are fully aware of the fact that too little, too late is a problem, that with more action on the trade front earlier, starting with the strength of the dollar, we would have less of a problem now.

Mr. SLATTERY. I am glad you mentioned the strength of the dollar now. From your earlier remarks, is it safe for me to conclude, Mr. Smart, that you believe, and I assume this must be the view of perhaps Secretary Baldrige, that the value of the dollar you indicated earlier the fact that its overvalue is caused by our Federal deficit problem? Is that your view, Mr. Smart?

Mr. SMART. It is my personal view, yes.

Mr. SLATTERY. Is that view shared by Mr. Baldrige?

Mr. SMART. He would have to speak for himself, but my impression is we don't have a disagreement in that area.

Mr. SLATTERY. I am amazed, frankly, that you haven't discussed that with your boss. That seems to be sort of the root problem that we have.

Mr. SMART. I didn't say I hadn't discussed it with him, I said he should speak for himself on what his opinions are. I do not detect a disagreement.

Mr. SLATTERY. To follow this through, Mr. Smart, I assume then, that you believe the overvalued dollar is caused by high interest rates and high interest rates are caused by the domestic fiscal deficit. Is that a true statement, Mr. Smart, of your views?

Mr. SMART. My views would be——

Mr. SLATTERY. Yes or no. That is a simple statement. I don't want to use all my time. Yes or no. I think you have pretty much said that already.

Do you believe that the overvalued dollars is caused by high interest rates principally and those high interest rates are caused by enormous deficits?

Mr. SMART. I would say that is a fair statement of my belief, yes.

Mr. SLATTERY. Do you believe that view is shared by the decisionmakers in this administration?

Mr. SMART. I suspect some, but not everyone.

Mr. **Slattery**. You know, this town long before I arrived here was called a town of loud voices and short memories. One of the things that I have absolutely become amazed at since I have arrived here is just how loud the voices are and how terribly short the memories are.

You know something? Are you aware, Mr. Smart, that this year, this January, our President, your boss, submitted to the Congress as the President of the United States, the Chief Executive Officer of this country, the person in charge, so to speak, a budget to this Congress that asked the Congress to adopt policies that would set in place $200 billion deficits according to CBO from now until 1990?

Now that was this January. And, Mr. Smart, as you sit before me today, you tell me that the cornerstone of this administration's trade policy is deficit reduction. It is absolutely amazing to me, Mr. Smart, that the people of this country and people like you—you are smart enough to know better than talking in these sort of duplicitous ways, can claim that the cornerstone of our trade policy is deficit reduction.

If the cornerstone of your trade policy is deficit reduction, Mr. Smart, this administration and you don't have a trade policy because this administration is not committed to deficit reduction as evidenced by the budget the President of the United States submits to this Congress.

I don't know what we have to do in this country to bring the American public to the point where they understand what this President is doing. What do we have to do, Mr. Smart, to make people like you come before bodies like this and tell us the truth and say the truth? The truth is, we don't have a trade policy and we don't have a policy to reduce deficits.

The President of the United States this year, Mr. Smart, personally prevented a deal from being made that would dramatically reduce the deficit in this country. He stopped it and you know I am right.

Senator Dole and Speaker O'Neill were ready to make a deal and the President said, no, no revenues, don't touch COLA's in any way and the deal fell apart.

When that fell apart, Mr. Smart, this administration's cornerstone to trade policy fell apart. The fact of the matter is as we sit here today this administration does not have a trade policy and they don't have a policy to reduce this deficit in this country.

Mr. **Florio**. The time of the gentleman has expired.

If there is any brief response you would like to make in answer to that, Mr. Smart?

Mr. **Smart**. I guess I should only say he has his opinion and I have mine.

Mr. **Slattery**. Mr. Chairman, I would point out that I spoke the facts. They are irrefutable.

Mr. **Florio**. The time of the gentleman has expired. The gentleman from Utah.

Mr. **Nielson**. Thank you, Mr. Chairman.

I would like to refute what my friend from Kansas just said, but I wish there were more Democrats who felt this way. He has been in support of every deficit reduction bill in Congress in the House. Unfortunately, he has not been joined by most of his colleagues and if you check the record you will find enough blame to go around on the deficit program.

Let me just simply comment about the consent decree that broke up Bell Telephone Co. this year.

In 1980, we had a surplus of a billion dollars in telecommunications, now we have a $600 million deficit. That has been mentioned by both chairmen.

Is that partly due in your opinion that Bell cannot manufacture equipment now under that decree? We have gone from plus $1 billion down to minus $600 million. Is that due to the fact Bell can no longer manufacture and sell its products?

Mr. SMART. No, I don't think so. My understanding is AT&T maintained the manufacturing capability of the old company within the surviving parent, if you will, that the operating companies were spun off and precluded from manufacturing equipment but that the parent and its divisions that remained with it could, so I don't think that it is related to that in the short term.

It is possible that were the Bell operating companies allowed to become manufacturers as well, they would be added competitors in the market and that they might come up with an ability to export which would increase our competence in the world market, but that probably would have taken longer than would have had any impact on the current deficit.

Mr. NIELSON. Let me follow up with a comment made earlier by one of my colleagues.

NTT [Nippon Telephone & Telegraph] has spun off from the government, perfectly good opportunity. Congressman Wirth indicated in his statement I think it is correct—Congressman Florio also—we need to move very quickly on this bill. The President has also said he does not object to bills which open markets. He only objects to those which unfairly close markets.

Isn't that a bill, in your opinion, that opens markets? Isn't it a bill which is timely and if we don't strike right quickly and take advantage of the opportunity Japan has given us we may lose that opportunity?

Mr. SMART. I certainly do agree the intention of this bill is to open markets, yes. That is the reason that I can testify reasonably constructively on it.

Mr. NIELSON. I understand you did.

How far are you going to be able to go with the rest of the administration in this particular issue? Apparently you and the President agree we need to open markets. We agree this is a bill which will do that. Why is the administration not in favor of this bill then?

Mr. SMART. The administration has not taken a position on this bill, sir, neither for it, nor against it.

Mr. NIELSON. Will they take a position on the bill?

Mr. SMART. I can't tell you. I am going to go back from this hearing with considerable thoughts to report.

Mr. NIELSON. I have frustration similar to that expressed by my colleagues on both sides of the aisle that we do need to have something positive in trade policy. I am not a protectionist. I do believe, however, when ITT shows there has been an unfair trade practices or there has been danger because of trade policies, then we need to do some action and in answer to the question asked by Representative Bryant, there is at least one bill that the administration did support and that happened to be the trade bill last year which included some negotiations in steel and they are actively working on that.

I do want to point that one out just in passing. But in telecommunications don't you feel that if Bell were able to manufacture and sell like they once were able to that this would help restore the balance of trade?

Mr. SMART. I am a little concerned that we are talking about a different understanding of the breakup. AT&T, Western Electric and its subsidiaries do manufacture telecommunications equipment and do sell it internationally including in Japan. The Bell operating companies, the regional ones that are basically telephone service companies, are precluded from manufacturing, but the manufacturer that we had 5 years ago still exists.

Mr. WIRTH. Would the gentleman yield?

Mr. NIELSON. I will be happy to yield.

Mr. WIRTH. Just for the record, the gentleman from the Commerce Department is correct. AT&T is manufacturing and Western Electric, not only manufacturing at this point, but has moved—ATTI is now moving very aggressively on an international market place which did not exist 3 years ago.

We also have the growth of a number of other domestic manufacturers operating overseas such as Rolm, ITT, and so on, so we have seen a plethora of companies not only come into the market place, but begin to market overseas.

The final remaining question is the cross subsidy issue with which the gentleman from Iowa is familiar, which is partially at the root of the relationship between the local operating companies and manufacturing.

Mr. NIELSON. Would the chairman wonder, though, that the breakup has caused a little dislocation as far as our aggressive market of telephone equipment? Would you agree with that?

Mr. WIRTH. No; I think just the opposite in fact has occurred. I think we have seen the development of ATTI internationally. We have seen a lot more American companies enter this market place. I think, in fact, we probably do a much more aggressive and good job of marketing overseas.

What has happened is our market is now open to foreign goods coming in to the domestic market. What we want to do is to make sure that we can counter that and go overseas as we are trying to do with NTT and so on.

Mr. NIELSON. If the chairman will allow me, you can lose trade balance either way, either by reducing the amount we sell or by increasing the amount we open our market to others. The breakup of the Bell Co. has, as you stated, run an awful lot of more Japanese equipment into our country and helped open their markets.

It is the time to move rapidly and I fully support the bill and hope to prevail on the administration to support the bill also.

Mr. WIRTH. We have seen a burgeoning marketplace not only in scope nationally, but internationally as well. We want a larger piece of that international market and some of our foreign competitors want a larger piece of our market.

Mr. **Nielson**. As I understand your statement, I think we agree.

Mr. **Wirth**. I thank the gentleman for yielding.

Mr. **Florio**. The gentleman from Texas is recognized for 5 minutes.

Mr. **Richardson**. We have talked about the bilateral negotiations that are going on with Japan in the telecommunications area, Mr. Smart. What are the prospects of engaging in bilateral negotiations with Canada and some of the EEC countries which I understand are also preventing access to their markets for our products? Have we initiated any strictly bilateral within, without the context of any multilateral forum, any bilateral discussions with Germany? With Canada and within the EC countries, which ones are likely prospects?

Mr. **Smart**. We have agreed with the Germans to set up a task force which will go over to Germany within a month or so to investigate their situation, determine whether there are obstacles to our entering their markets there and assuming that such obstacles are found, establish a mechanism for negotiating their disappearance.

In the case of Canada, it really falls under the broader bilateral free trade negotiations which the Canadians have requested we consider and which in due course the administration will be discussing with the Congress.

I think it might be counterproductive to single out telecommunications in Canada on the eve of possibly a much broader set of negotiations with them. Germany is on our immediate list.

Mr. **Richardson**. Some time ago I believe the administration submitted a bill of trade which would have jurisdiction over trade matters. I believe this bill has been reintroduced and I am trying to establish for the record whether it has or has not administration support.

Given your position at Commerce, you mentioned the colleagueability of all of you when you deal with trade, whether it makes any sense to proceed with a Department of Trade that would have sole jurisdiction obviously with other agency comment over multilateral trade negotiations.

Is the present bureaucratic setup working effectively or do we need to change it?

Mr. **Smart**. First of all, the administration, I believe, decided not to submit a bill specifically to reorganize the trade departments but I believe Senator Roth has done so and perhaps others as well.

My own observation is that when you have a certain structure you work as effectively as you can within that structure to get the job done. I think that people have been extremely cooperative as I have observed it over the past several months.

If you were to sit and design how to deal with this particular issue on an organizational basis, you might come up with something different than what we now have.

Mr. **Richardson**. So what you are saying is that the present set up could stand some improvement?

Mr. **Smart**. I suspect not only jurisdictionally in the administration, but perhaps also in the Congress.

Mr. **Richardson**. Well, as long as we keep jurisdiction we can do whatever we want.

Mr. Chairman, is my time up?

Mr. FLORIO. No.

Mr. RICHARDSON. I want to just emphasize once again Japan obviously is a problem, but my understanding in reading some of the testimony is we have some flagrant trade barriers that have been enacted by many other European countries and by Canada and that perhaps we are singling out Japan because it is the most obvious and sexy target. I am not going to ask you to name the other nations, but it would seem to me that if we can proceed with some bilateral negotiations that would restrict perhaps what many agree is the most blaring inequity and that is the area of telecommunications. I would encourage the Department to do that.

I recognize that we are moving into some very sensitive trade areas, but I think the meaning is very clear and I would hope that you would take back to the Department the view of this committee and I believe the bipartisan view of this committee that a bill like this which has some features of protection, which has some features enabling the President to take certain steps and not forcing him, is the sentiments in the Congress and in this country.

Thank you, Mr. Chairman.

Mr. FLORIO. Time of the gentleman has expired.

The gentleman from New York.

Mr. LENT. Yes. First of all, Mr. Chairman, I want to apologize. I had a meeting of the Merchant Marine and Fisheries Committee, where we were working on the Superfund legislation which is a subject I know the gentleman is interested in, which detained me. I will give him a full report later. I was not here, Mr. Secretary, for the earlier questions and I don't want to cover any area that might already have been covered, so I would like to just ask you about your opinion of the effect on our trade deficit of the proposed tax reform bills that are presently being considered in the Ways and Means Committee, either the so-called Treasury II or the Rostenkowski draft.

I heard testimony this morning, at a breakfast I attended, from a number of important industrial leaders including the chairman of the board of GTE and Alcoa, that a tax bill, whether it be administration or Rostenkowski's, will further aggravate the American trade deficit by cutting back on the favorable capital recovery system put in place by the Congress back in 1981.

One U.S. industrialist told us that the bill is referred to informally as the Japanese relief act of 1985 because it would discourage new capital investment in America, and cause U.S. industry to move production overseas where capital cost recovery conditions are better and this would result in the loss of American jobs.

I would like to ask you whether you agree with those assessments by the American industrial leaders as to the tax reform legislation?

Mr. SMART. I think you can get various answers on the tax bill depending on which company you talk to and what its particular position is. If the bill has the effect of improving the strength of the economy and the strength of our companies sufficiently to offset the fact that they will be bearing a higher total burden of taxes in order to finance a cut in taxes for individuals, then you can argue that their competitive position in the aggregate will not be hurt.

On the other hand, if individuals do better as a result of this tax bill and are encouraged to invest as a result in sensible activities rather than in tax shelters, then clearly you have capital available to the productive segments of the market which can be helpful.

I think it is a very difficult thing to sort out. The people who have analyzed it would argue in total it will be beneficial to our industrial strength but there will clearly be individual companies, particular very capital intensive companies, who perhaps will see their position as being hurt by it and Alcoa and GTE could well be two of them.

Mr. **Lent**. I thank the gentleman. I have no further questions.

Mr. **Florio**. The gentleman from Indiana is recognized.

Mr. **Sharp**. I think the chairman and Mr. Smart have been at it for quite some time. I would like to make a few remarks. I am not sure there is anything additional to be elicited.

Mr. Smart, I would agree 5 years ago, even 3 years ago, the proposition you and others in the administration put forth that the wisest way to handle these very complicated trade problems with other countries is through very firm and vigorous negotiation, but like others on Capitol Hill and elsewhere, I am not as convinced that we have seen as much production from those as we should and I think partly the administration has undercut itself by denying the tools of, frankly, retribution that I think are necessary. So I plan to vote on this legislation to keep the administration as well as other trading partners' feet to the fire on the issue in hopes we are going to see ourselves negotiating for much greater strength which I think we have to do.

I have no illusion that this solves our trade problems or the trade deficit problem by any whit of the imagination. We have everything from the deficit to take care of to having business folks to take care of to go in and learn the language and hopefully like everybody else around the world. I do think we are not going to move vigorously on reducing other trade barriers until it is very clear and there have got to be a few very tough examples that this country means business and in a big way and every time we send that message from Capitol Hill, it seems to get some marginal movement, but I only reiterate what you are hearing from others, because I happen to be one of those who has shifted his view on this issue and I am not prepared to go down the pike of all the protectionist legislation we have sailing around this place, but I don't see how else we can deal with out trading partners except until they understand.

It makes no political sense, makes no economic sense for them to undo some of their barriers as long as there is no ultimate penalty. I think when there is an ultimate penalty and that is understood, I will bet we will have rapid cooperation on a number of fronts no matter how difficult that is economically and politically for them to do and I am sure they can see the same on our side on that kind of things.

So, Mr. Chairman, I plan to support not providing the wide discretion that the administration would like at this time and maybe in 6 months they will have shown all of us that they will take the discretion they have now and use it more vigorously and that will pay off for us.

Thank you.

Mr. FLORIO. The time of the gentleman has expired.

The gentleman from Ohio, Mr. Luken.

Mr. LUKEN. Mr. Smart, in your statement you point out that the United States is widely regarded as the world's leader in production, consumption, technological innovation and sales of telecommunications equipment. However, you point out our international trade position clearly does not reflect this leadership.

Wouldn't it be fair to assume that is as a result of the policies we have been following?

Mr. SMART. I think it certainly is fair to assume that it is because we have not gained access to foreign markets in the same way they have gained access to ours.

Mr. LUKEN. That is as a result of the policies we have been following, isn't it? What I am asking you, if you don't want to answer that, is how your recommendations or what your policies will be that are any different from what we have been following.

Mr. SMART. I think it is worth understanding that until ATT was deregulated, it was fairly common for the larger telecommunications companies to be monopolies, often government owned, usually government owned, that provided their own equipment and had in effect a tightly knit system between equipment construction and use.

There were smaller countries, of course, where that was not the case and they bought equipment from the outside world. With the deregulation of AT&T, the United States changed the playing field and now our market, our operating companies, are free to buy from anywhere including but not limited to AT&T.

Mr. LUKEN. When did that start?

Mr. SMART. When was the deregulation?

Mr. LUKEN. When were they free? That is only the last year or so, isn't it, is what I am pointing out.

Mr. SMART. I think deregulation was around 1982, somewhere in there.

Mr. LUKEN. It is only the last year or so that has come to fruition so that does not really take care of 1980 to 1983 and the trend set in at that time. But it also set in with regard to other sectors. There is nothing unusual about that.

Mr. SMART. And the strength of the dollar became a problem in that period as well.

Mr. LUKEN. The strength of the dollar, that is the policy we have been following; isn't it? The President has gloried in the strong dollar. I heard him say that. Those are the policies we have been following. "The administration", you say, "has demonstrated its concern over the imbalance in telecommunications market opportunities abroad by moving aggressively to negotiate greater market access for U.S. suppliers in both bilateral and multilateral contexts."

Do you really think that moving aggressively would do it? I would like to adopt that view, but we should not be talking about free trade and protectionism and especially we should not be saying to protect ourselves and use it as a pejorative. I don't think that we should, but we should be talking about reciprocity, shouldn't we? Isn't it funny I don't hear anything about reciprocity, but if we did use the term "reciprocity", it would be easy to see that when they are doing it to us we have to do it to them unless they stop doing it to us. That is reciprocity. But you folks are coming in just like the President. President Carter did it, too—and you are saying when they are doing it to us we negotiate and we establish a lot of legal systems about their markets and they do whatever the devil they wanted to do anyway. These are all true systems and you come in here with all this talk about negotiation, aggressively negotiating. It is your turn.

Mr. SMART. I think we do use the term "equal access" to markets fairly regularly which would suggest reciprocal treatment. You have to be a little careful in demanding access that you don't have when you have an international trading system that you are trying to strengthen. If you go counter to that in taking retaliatory action or market closing action, you find yourself destroying the prospect of the very thing you would like to build, which is a free and open and fair trading system respected by all the nations of the world through the GATT or some successor to the GATT that is more comprehensive.

Mr. LUKEN. You didn't hear me. I said all legalisms and talk. What we do want to do is talk about reciprocity. If they are doing it to us, we do it to them. That is the only rule we can really follow.

It has got to be reciprocal. It can't be reciprocal if they are doing it to us, if they have got a closed market and all we do is talk about it. That has been the history.

Mr. SMART. I don't have any problem with your objective. I think there may be some ways of getting there that are better and more effective than other ways.

Mr. SLATTERY. Would the gentleman yield?

Mr. LUKEN. I will be glad to yield to the gentleman from Kansas. Was that who spoke? Sounded like his voice.

Mr. SLATTERY. Yes. Thank you.

I was just wondering, going along with this just a little bit, Mr. Smart, could you just in your own words tell us what in your judgment has been the most significant achievement of this administration?

Mr. Chairman, I ask unanimous consent for 1 additional minute.

Mr. FLORIO. Without objection, you may.

Mr. SLATTERY. From the gentleman from Ohio if he wants 1 additional minute.

Mr. LUKEN. I do.

Mr. SLATTERY. Will the gentleman yield?

Mr. LUKEN. Yes.

Mr. SLATTERY. Thank you.

Would you tell us in your judgment what is the most significant achievement or achievements of this administration in the last 5 years with its sort of "get tough" negotiating policy—because we have already clearly established there isn't any other policy—now lets talk about what the achievements of the "get tough" negotiating policy is over the last 5 years.

Just one, two, three, what are the achievements?

Mr. SMART. I am not sure the "get tough" negotiating policy has been in effect for the last 5 years.

Mr. LUKEN. We will get a unanimous vote on that.

Mr. SLATTERY. What about the last 2 years, Mr. Smart? Has it been in effect the last 2 years?

Mr. SMART. I think the "get tough" policy, if you will, is a reasonably recent phenomenon as explained by the President's speech of a couple weeks ago.

Mr. SLATTERY. Are you saying there has not been any effort then, contrary to what Mr. Brock was telling us for the last 5 years, in getting tough to negotiate with people and make them get fair and tough? Is that what you are telling us?

Mr. SMART. Not any effort but any "get tough" policy; it seems to me the recent statement is a much more "get tough."

Mr. SLATTERY. Any achievements, Mr. Smart, in your judgment in the last 5 years, specifically one thing the administration has achieved in the area?

Mr. SMART. We certainly have made strides in opening up the telecommunications market in Japan. We sold satellites and——

Mr. SLATTERY. I would observe the deficit continues to increase dramatically. Is that your achievement?

Mr. SMART. In my opinion——

Mr. SLATTERY. What other achievements? I will accept that. What others?

Mr. SMART. The problem with the trade deficit is heavily the strength of the dollar, which is not going——

Mr. SLATTERY. We have already established clearly beyond any doubt that the administration's pursuing a policy which caused that, so that is no longer part of your policy. We established that. What you are telling me, Mr. Smart—this is, again, very interesting. We mumbo-jumbo around here and jive each other for hours and the fact of the matter is the administration is pursuing policies that caused the problem, by your own admission, with $200 billion deficits, and in addition to that here you are, Mr. Smart, and I know you have only been on the job a few months but you are the Under Secretary for International Trade and you are sitting here and can't give all these people in this room one specific example of what this administration has achieved in this area in the last 5 years. I think this is appalling.

Mr. FLORIO. The time of the gentleman has expired.

Mr. LENT. I ask the gentleman be given an additional minute.

Mr. FLORIO. Without objection, so ordered. The gentleman from Ohio has the time.

Mr. LENT. Will the gentleman yield to me?

Mr. LUKEN. I do request the time, and I will yield after a brief comment on which I will retire from the list.

I subscribe to the sentiments of the gentleman from Kansas who pursued these questions very effectively and I think we need a new lexicon. Obviously the Reagan administration doesn't understand what progress is. Progress means reciprocity and coming closer to a balance of payments or balance in our trade, and I think we should pass this bill. As a matter of fact, I think we ought to consider the Senate bill or something stronger which has some real leverage in it.

I yield to the gentleman from New York.

Mr. **Lent**. I thank the gentleman for yielding. I just wanted to comment to my colleague from Kansas, he seems to place the onus and responsibility for the national deficit on the administration. I think it should be pointed out that it's Congress that votes on the spending bills that have created this $200 billion deficit that we suffer from, and that deficit then has ramifications with respect to the strength of the American dollar which in turn creates the trade deficit.

Mr. **Slattery**. Would the gentleman yield just a few seconds? There is no one on this committee that I have higher regard for than the gentleman from New York and I really enjoy working with the gentleman but I have heard that line that the Congress spends but I would observe that in the 3 years that I have been in Congress I cannot think of one appropriation bill that has been signed into law that has been passed by the Congress that the President vetoed in the 3 years I have been here. There may have been one minor one.

The other thing I would point out—I think the gentleman from New York would concur in this—that the Chief Executive submits to this legislative body of 535 people a budget, and this year he submitted a budget with deficits of $200 billion, according to CBO, as far as the eye can see. The President can hardly walk away from this.

I am not suggesting that all the blame should lie at the steps of the White House, clearly there is responsibility that has to rest with this body and with both political parties, frankly. But the fact remains that this President, as of January of this year, submitted to this Congress a budget that called for $200 billion deficits as far as the eye can see, according to CBO estimates.

Mr. **Florio**. The time of the gentleman has again expired. The gentleman from Louisiana is recognized for five minutes.

Mr. **Tauzin**. Thank you very much.

Mr. Smart, one of the things that pleased me most about this administration in some of its international relationships has been its determination to force the Soviet Union to the bargaining table at Geneva with a policy that said we are not going to voluntarily reduce our weapons arsenal, in the hopes that you reduce yours. We are going to match you. We are going to continue matching you until you realize the folly of an arms race, until you agree to sit down with us, and bilaterally agree to arms reduction.

Not only has that policy apparently already brought some real results, it has brought the Russians back to the table. But a recent poll indicated our partners in NATO and their political leaders agree with the President's position that he is winning, if you will, the public relations war in Europe on the advent of the Geneva talks.

What astounds me is how the administration can adopt such a successful line in arms reduction negotiations and yet adopt the very opposite line when it comes to trade barrier reduction opportunities.

How on Earth can we expect our trading partners, who clearly have set up trade barriers in telecommunications, to voluntarily reduce those trade barriers any more than we can expect the Soviets to voluntarily reduce their nuclear forces, unless they are first forced to realize that we are prepared to meet them item for item, commodity by commodity, barrier for barrier, unless they indeed agree in bilateral talks to reduction of those barriers?

Why a different policy here? When the other works so well in arms reduction, why that policy here?

Mr. **Smart**. I don't believe the policy is totally different here. We have self-initiated a number of 301 cases. We have evaluated other ways we might go to take actions that will be forcing the opening of markets. We have not denied the direction of your bill. I think we welcome opportunities to bring leverage, if you will, to open markets whether actions under current laws or, if appropriate, by new laws.

Mr. **Tauzin**. So you are saying this administration is now taking the position that like arms reduction initiatives it's prepared to accept congressional initiatives that will match the barriers our trading partners have imposed commodity by commodity until those trading partners bilaterally agree to reduce those barriers?

Mr. **Smart**. We are getting more specific than I intended to get.

Mr. **Tauzin**. Yes, I am.

Mr. **Smart**. Say we would welcome discussing initiatives that would help to open markets. If you wish to do it sector by sector, we may have some problems with that.

But the general thrust of it, certainly.

Mr. **Tauzin**. Well, the general thrust of the arms reduction is that we commence an MX building program, we commence the Midgetman, we commence the cruise missile development, we commence deployment of nuclear weapons in Western Europe, we do everything the Soviets are doing until they recognize that what they are doing is going to be useless and that they ought to reduce their nuclear arsenal with us. Would you agree that that policy ought to apply in trade with our trading partners who have obviously substantially exceeded us in trade barriers?

Mr. **Smart**. A close parallel to the arms situation is our request for sufficient funds to be able to match or, if necessary, exceed the mixed credit policies of the French and Japanese and other countries so that we can hopefully bring them to their senses to realize this is not an appropriate form of government subsidies of trade. In other words, we will match them or, if necessary, beat them until this practice is discontinued.

Mr. **Tauzin**. I will give you that. You have made initiatives at matching other countries on the government subsidies of exports. But you have been very reluctant as an administration to match them on barriers to imports, extremely reluctant to the point of vetoing congressional initiatives.

The point I am indicating is the administration is dead set against any tariffs, any artificial quotas, when you and I know tariffs and quotas and nontariff barriers exist in other countries, particularly in the telecommunications area.

Are you prepared to change that policy now? Are you prepared to welcome congressional initiatives that tariffs, quotas, and nontariff barriers equal to and reciprocate to those in place by other countries with the sole purpose of not to escalate the barrier war but to bring them to the negotiating table, as we brought the Soviets to Geneva?

Mr. **Smart**. I think I would have to start out by saying I found this a very educational morning. I appreciate and sympathize with and share many of the sentiments that have been expressed here. I am concerned on getting too precise, sector by sector, where the balance is uneven and where we may run into GATT problems at the time that we are trying to restore and strengthen the GATT as opposed to violating it.

Mr. **Tauzin**. That is fair.

Mr. **Smart**. I would be very careful in taking a specific position on some hypothetical issue.

Mr. **Tauzin**. It is a fair answer and I understand why you would be careful right now. I am very interested and I wish at some point you would signal to us particularly in this telecommunications area whether there is a new willingness on the part of the administration to at least explore the possibility of matching in order to get them to negotiate.

Mr. Chairman, if I could have 1 additional minute.

Mr. **Florio**. Without objection, the gentleman is recognized for 1 additional minute.

Mr. **Tauzin**. You mentioned GATT. Has your department yet investigated the impact of GATT permitted value-added tax rebates on import-export imbalance in the telecommunications area?

Mr. **Smart**. I don't believe we made a specific study of it. We are very aware of the fact that the way that taxes are levied by various governments can have an impact on the competitiveness of suppliers internationally because some taxes remain imbedded in the cost of the product and others are removed at the border and therefore lighten the load on the countries that are manufacturing under those tax laws.

Mr. **Tauzin**. One of the things that has offended many, many people in this country who have lost their jobs to this trade deficit situation, particularly to the 1,600 who have lost their jobs in the AT&T in Shreveport, LA, is the fact that the countries now getting the jobs indeed have a situation where the value-added tax is imposed upon the marketplace domestically in a protected domestic market are rebated at the export point to the company when the goods are sold in our market, thus creating an artificial subsidy for those products in the American marketplace, making a lot more attractive to produce them in the other country instead of Shreveport, LA.

It is a source of extreme aggravation and irritation for American workers, and I would call your attention to it. I thank the chairman for giving me this extra minute to do that.

In whatever negotiations or examinations you make in this issue. It seems that this tax rebated issue is one that often gets forgotten and yet maybe one of the major government subsidies areas that escalates this imbalance in trade and loss of American jobs.

Mr. **Smart**. It certainly is a point. If you are trying to really get at it, you have to look at the tax question as a whole, as opposed to any particular piece of it, although that piece clearly is a problem.

Mr. **Tauzin**. Thank you very much, Mr. Smart. Thank you, Mr. Chairman.

Mr. **Florio**. The time of the gentleman has expired.

BEST C[illegible]LE

Mr. Secretary, we want to express our appreciation to you for your patience. You have been extremely helpful. I choose to take your testimony as general support for the proposition that this legislation represents, that there is a need for legislative initiatives to move the negotiation process along to achieve the ends of the negotiation process, to change bottom line market shares.

I take from your statement that you unlike previous spokesmen who have come up from the administration and opposed almost automatically what it is we have tried to do are not opposed to our general approach. So I am hopeful the pledge of cooperation from your office—and we will hear from USTR in a few minutes—will give us something that ultimately we can all agree to by way of legislation that the President is comfortable with to the point of being willing to sign.

So with that, whether that is justified or not, I choose to interpret your remarks that way—and we will work from that premise—is that you are generally supportive of many of the concepts that are included in this bill.

Thank you very much.

Mr. Wirth. Will the gentleman yield?

Mr. Florio. Yes, I would be happy to yield.

Mr. Wirth. I would associate myself with your comments. Also I thank you, Mr. Secretary, for such a long and, as you say, interesting morning. I believe the two subcommittees will be marking up very speedily and if we might have the benefit of your counsel on the two issues that you brought up in our earlier discussion, as I gathered, potentially troubling, the GATT issue and the FCC issue, clarifying them, we would like to hear from you and perhaps right away or have your counsel or legislative person, get a hold of us immediately. That would be very helpful if we could do that.

Mr. Smart. If I could just summarize where I believe we are, I would caution the chairman not to leap too far forward in assuming support where he finds support for the objective but not yet the specifics of the legislation.

Mr. Florio. The absence of rejection we regard as support of sorts.

Mr. Smart. The absence of rejection is certainly better than rejection.

The second point is that I will go back quickly to see if it is appropriate to work with you, and I understand the time horizon that you are operating under and I have enjoyed my first exposure to a congressional hearing and feel educated thereby and chastened in some respects, and enlightened and elevated in others. Thank you very much.

Mr. Florio. Thank you very much. You are obviously going to be successful at this effort.

We are now pleased to hear from the Hon. Bruce Wilson, Assistant U.S. Trade Representative. Mr. Wilson, we welcome you to our committee. We appreciate your patience through the course of the morning. Your statement will be made a part of the record in this entirety. You may feel free to proceed in summary fashion, if you see fit. We will be happy to hear from you.

STATEMENT OF S. BRUCE WILSON, ASSISTANT, INDUSTRY AND SERVICES, U.S. TRADE REPRESENTATIVE

Mr. Wilson. Thank you very much, Mr. Chairman and members of the subcommittees.

My name is Bruce Wilson and, as you stated, I am Assistant U.S. Trade Representative for Industry and Services. I am appearing before the subcommittees today in place of Ambassador Michael Smith, Deputy U.S. Trade Representative, who was unable to appear today because he is out of the United States on an international negotiating assignment.

The Office of the U.S. Trade Representative appreciates the opportunity to discuss these important issues with you today and in particular the provisions of H.R. 3131. As you noted, the full text of my written testimony will be incorporated into the record. I will limit myself to a few summary observations at the outset. Many of the points that I will cover in my remarks have been debated extensively here this morning but you may wish to follow up on some of these points.

I think that Secretary Smart and, indeed, your bill delineate the causes of the recent deterioration in telecommunications. That is, a trade position that went from a $90 million surplus in 1982, to a $1.2 billion deficit in 1984. These causes are diverse and complex. They range from a strong dollar, which has been noted here quite extensively this morning, to the deregulation of the U.S. market and divestiture of AT&T, to continued lack of access in important overseas markets due, among other things, to restricted Government procurement markets and restrictive standards.

These deteriorating figures and a number of legislative proposals such as the one before us today have led the executive branch to a review of our trade policies in relation to telecommunications. As a result of this review, we have concluded that obtaining additional access in foreign telecommunications markets indeed should be a top priority on this administration's trade agenda over the coming months and years.

Indeed, as Secretary Smart described, we have spent much of the last year negotiating with Japan in an effort to open its telecommunications markets and will soon embark on bilateral discussions with a number of European countries in order to seek increased access there.

In addition, as was probably noted by the chairman and Members of the subcommittees, earlier this week Canada proposed to the United States that we enter into broad-based trade negotiations at an early date, and we will be exploring those possibilities with the Canadians expeditiously.

I should note that the U.S. Trade Representative's Office believes that the approach that we follow for securing increased foreign access for the U.S. telecommunications industry must take into account at least three factors:

First, we must continue to respect our international trading obligations and thereby avoid taking actions that might ultimately lead to retaliation against U.S. exports of nontelecommunications products.

Second, we must ensure that the negotiating leverage of the President is sufficiently flexible to address a diverse array of market access problems. I noted the discussion on this particular point with a great deal of interest.

Finally—and I think this is a point that was not addressed by the committee this morning—I believe that it's absolutely critical that industry and Government work together to define our negotiating ojectives in this particular area, since telecommunications is an area where conditions change very rapidly and conditions vary greatly from country to country.

With respect to the provisions of H.R. 3131, as Secretary Smart noted, while we agree with the objectives of this particular proposal, that is, to obtain open access for U.S. telecommunications equipment producers and service vendors, we do have a number of specific concerns about the bill that should be noted, and indeed they have been noted and debated here.

From the standpoint of the U.S. Trade Representative's Office, I think that our major concern relates to the time-delineated mandatory retaliation required by the bill because we believe that this particular approach, that is a time-delineated approach, will deprive the President of the necessary margin of flexibility that he needs in conducting negotiations and in shaping the proper responses to continuing access problems where negotiations may have bogged down or have altogether failed.

I think it is important to emphasize that the U.S. Trade Representative's Office does not oppose the use of retaliation. Rather, we believe that retaliatory actions are for the most part only useful when they would truly serve the objective of obtaining increased foreign access or to obtain satisfaction of U.S. rights under international agreements.

I think we had a recent instance in which a potential retaliatory action was used quite successfully in this regard—you may have been aware of this—the so-called pasta-citrus war with the community. We were going to go forward with a retaliatory action on pasta and it caused the Europeans to rethink their particular approach on access for U.S. citrus exports: in fact that kept the negotiation going by the mere fact that we were about to invoke retaliatory action. In this particular type of situation, we believe that retaliation can be quite effective.

We are also concerned with respect to this particular bill about the lack of negotiating authority. We talk about the need to go out and negotiate, but there is really no negotiating authority per se in the bill. The experience that I have had in international negotiations for the past 10 years or so, is that it is necessary in international negotiations to have enticements as well as threats in order to move the negotiation along and to obtain your objectives in a negotiation.

This lack of negotiating authority is something that this particular bill does lack, and we believe that any telecommunications legislation considered by Congress should provide for such authority so that the President may enter into trade agreements and grant concessions in return for foreign concessions in telecommunications where such concessions are warranted or necessary.

I believe that this fairly well summarizes what I have covered in my written testimony. I know we are running a little late here. I would be happy to respond to any questions you may have.

[The prepared statement of Mr. Wilson follows:]

STATEMENT OF

ASSISTANT U.S. TRADE REPRESENTATIVE

Mr. Chairman and members of the Subcommittee:

My name is Bruce Wilson and I am Assistant United States Trade Representative for Industry and Services. I am appearing before the Subcommittee today in place of Ambassador Michael Smith, Deputy United States Trade Representative, who was unable to appear because he is out of the United States on an international negotiating assignment. The Office of the United States Trade Representative appreciates the opportunity to discuss with this Subcommittee the important issue of international trade in telecommunications and, in particular, the provisions of H.R. 3131, the Telecommunications Trade Act of 1985.

The Recent Decline in the U.S. Telecommunications Trade Position and the Reasons Behind Such Decline

The telecommunications industry is of central importance to the international competitiveness of the United States in high technology. By any number of measures we are the world's leader in the production, application and use of telecommunications equipment and services. However, the relative U.S. performance in the international trade market for telecommunications equipment is less impressive than that of other countries. Our percentage of exports to total production is less than our major trading partners while at the same time, the United States has a much higher import penetration rate than most other major countries.

As a result, the U.S. has experienced nearly a $1.3 billion shift in our trade position over the last three years. Our 1982 surplus of nearly $90 million shifted to more than a $1.2 billion deficit in 1984. (U.S. exports were 1.160 billion while imports were $2.537 billion.) In 1985, we continue to see our trade position deteriorate. If the current trend continues, the U.S. telecommunications trade deficit could be significantly greater than $2.0 billion this year.

These deteriorating trade figures have led both the Executive and Legislative Branches to review the issue of market access between ourselves and our major trading partners. We in the Executive Branch have concluded that our deteriorating trade performance is not due to deficient U.S. technology; on the contrary, we are unsurpassed in digital switch, microwave, lightwave, and satellite technology. It is also not due simply to the growth of our telecommunications market, as the other major telecommunications markets in the world have generally grown as fast as the U.S. market.

Rather, we believe that the reasons for our deteriorating trade position can be traced to the following:

- The unilateral opening of the U.S. telecommunications market beginning with the 1968 Carterfone decision and culminating with the 1982 Consent Decree, has increased competition, both domestic and foreign, for equipment sales to private customers and regional telephone companies. Those actions were taken without consideration for their international trade effects.

- In the past, U.S. companies have not been as export oriented as their foreign competitors, although U.S. industry is now placing much greater emphasis on exports.

- Since PTTs, with the exception of NTT, are not covered by the disciplines of the GATT and the Government Procurement Code, foreign governments often direct the purchase of telecommunications equipment to domestic suppliers. Their purchases can be made on a basis that discriminates in favor of local suppliers.

- The PTTs and other foreign government entities often set equipment standards which are trade distortive even if they are not necessarily always intended as such. We recognize that in a world of communications systems which have evolved separately, standards and equipment specifications are going to be different among countries. Many of these differences are dictated by individual countries' attempts to maintain the quality and integrity of their telecommunications networks, but some are outright discriminatory. On the other hand, the U.S. standards-setting process provides ample opportunities for foreign interests to participate and the FCC equipment certification procedures are almost automatic.

- Other countries have been more aggressive than the United States in promoting telecommunications equipment exports through their export financing banks.

- Significantly, the high value of the dollar has helped make foreign telecommunications equipment price competitive in the U.S. market and U.S. equipment relatively less competitive in some markets, especially in the Third World.

In reviewing the trade aspects of the deregulation of the U.S. telecommunications market and the divestiture of AT&T, what really concerns the Administration is the future competitiveness and trade position of the U.S. industry. Beginning in 1983, imports of sophisticated telecommunications equipment began entering the U.S. in large numbers. The newly divested Bell operating companies and specialized common carriers have begun purchasing significant amounts of foreign equipment. For example, Siemens of West Germany has announced the sale of a digital central office switch to Wisconsin Bell Telephone Company and NEC has begun selling the next generation of its NEAX61 digital central office switch. As a result, we do not think it is an exaggeration to expect that imports of telecommunications equipment will continue to rise rapidly. Moreover, we are also seeing an increase in foreign telecommunications investment in the United States which means that foreign involvement in the approximately $25 billion U.S. telecommunications equipment market goes well beyond the increasing flow of imports.

The Administration's Approach to Telecommunications Trade Issues

Obtaining open market access in foreign telecommunications markets is a top priority for this Administration. We have spent much of the last year engaged in intensive negotiations with the Government of Japan to remove all potential discriminatory aspects of the new Japanese telecommunications regulatory structure which went into effect April 1 with the privatization of NTT.

On April 2, after several months of very intensive discussions at the highest levels of our government, the Administration announced it had reached basic understandings with Japan on the new regulatory regime for its telecommunications sector. In subsequent discussions with Japan, we have made further progress and expect these discussions to continue at least until the end of this year.

Clearly, Japan's telecommunications market is not 100 percent open and clearly our trading position with Japan is nowhere near what it should be. Ultimately, success can only be measured by increased U.S. sales and increased U.S. market share in Japan - a theme U.S. industry continues to stress and one with which we are in total agreement.

Japan is by no means the only country where U.S. industry faces obstacles to open competition in telecommunications. Our industry's view is that even more onerous restrictions exist in Europe. Most European markets are dominated by their individual PTTs, which prefer to purchase equipment manufactured within their borders. In addition, restrictive standards, testing and certification practices promote and protect domestic manufacturers at the expense of purchases from abroad. European PTTs also take a dim view of the U.S. approach of open competition in the area of enhanced services and, as a result, U.S. firms have little opportunity to offer these services in their markets.

As a result, the Administration is about to embark on in-depth bilateral discussions with the Federal Republic of Germany on issues of market access in telecommunications equipment and services. We also expect to soon enter into discussions with other European governments on the same issue. Our objective in these and other bilateral talks is to address the problem of unequal access in telecommunications equipment and services between the United States and foreign markets.

As part of this process, the Administration recognizes that the United States needs to create incentives for other countries to liberalize their telecommunications markets. Our is already a virtually open market -- the trade figures and our open regulatory structure attest to this fact.

The approach we adopt for securing increased foreign access for telecommunications industry must take into account two important factors. First, we must respect our international trading obligations and thereby avoid taking actions that might ultimately lead to foreign market-closing outcomes adversely affecting U.S. exports of non-telecommunications products. Second, we must ensure that the negotiating leverage of the President is sufficiently flexible to address a diverse array of market access problems. For example, our problems in Japan are different from those in Europe, which are in turn different from those we face in Canada. One narrowly drawn approach, if applied to all regions of the world, might not produce the desired results given the varying levels of trade, investment and regulatory structures among our trading partners. In addition to issues of trade and investment, we must consider the differing domestic telecommunications policies being pursued by our trading partners.

In sum, the President must have the flexibility to respond to a variety of market access problems that differ from region to region. Further, it is critical that government and industry work together to define our negotiating objectives with regard to specific situations and in those countries where the largest problems exist for the U.S. telecommunications industry. Given the rapidly changing nature of this industry, these objectives will change over time and the criteria for success will vary substantially from country to country because the numerous factors that must be considered also vary country to country.

Administration Views on Telecommunications Trade Legislation and H.R. 3131

The Administration supports the market-opening the objectives of H.R. 3131 -- to obtain open and unrestricted access to foreign markets in telecommunications equipment and services for U.S. vendors and service providers. Moreover, the bill urges negotiations as a tool for creating access to the U.S. market, an approach which closely parallels the Administration's policy of seeking free and fair trade.

Nonetheless, we at USTR and in the Administration are concerned about a number of general and specific features of H.R. 3131 which make the bill unacceptable as currently drafted. As a general matter, H.R. 3131 differs from more traditional trade legislation in that it urges the President to negotiate foreign access but provides as the only tool to do so mandatory retaliation in the absence of foreign concessions within a stated period of time. This concerns us because international trade negotiations usually require a subtle mixture of incentives, as well as threats, to be successful. Countries must be enticed as well as prodded, into economic liberalization. In this regard, H.R. 3131 leaves us especially uneasy because it could lead us down a dangerous path, without the ability to extricate ourselves if we find ourselves enmeshed in a situation unintended by the legislation.

With respect to specific provisions in the bill, we note that, despite language in supporting materials to the contrary, the bill seems to endorse a "mirror image" policy with respect to the regulation of the U.S. telecommunications system. In this regard, while "substantially equivalent market access" appears attractive in an area of high U.S. competitiveness like telecommunications, it poses some practical difficulties as a general negotiating strategy. Therefore, what we may want to seek is "fair and equitable" market opportunities as an alternative standard without prescribing that other countries must have structures that exactly accord with ours.

Undoubtedly, the feature of most concern to the Administration is that H.R. 3131 would require the President to take retaliatory action of some kind, regardless of other intervening factors. We believe any retaliatory authority given to the President should be exercised wherever it would achieve the objective of obtaining increased foreign access. However, we believe that legislatively-mandated retaliation will deprive the President of the necessary margin of flexibility he needs to conduct successful international negotiations. We therefore urge that any telecommunications trade legislation considered by Congress give the President such margin of flexibility. Further, H.R. 3131 provides no authority to the President to enter into trade agreements and grant U.S. trade concessions in return for foreign concessions in telecommunications trade. We also urge that any telecommunications trade legislation considered by Congress provide such authority.

Conclusion

I wish to thank the Subcommittee for the opportunity to testify on an issue this Administration considers to be one of fundamental importance to our future trade policy. We intend to intensify efforts with our trading partners in bilateral and multilateral negotiations to get them to improve market access opportunities in telecommunications equipment and services for U.S. industry. We will continue to vigorously pursue U.S. trade interests and rights under U.S. laws and international agreements and will ensure that other countries live up to their trade agreements with the United States. We will also continue to take those actions currently available to us to achieve more open foreign markets and to defend ourselves against unfair foreign trade practices in telecommunications trade. Finally, the Office of the United States Trade Representative and the Administration look forward to continuing our dialogue with Congress on the important problems which H.R. 3131 addresses.

Thank you.

Mr. FLORIO. Thank you very much. Let me follow up on your last point. Do I understand you to say that the President, under existing law, has inadequate authority to negotiate bilaterally or multilaterally? And you make specific reference to concessions. I am not sure I am clear on what you are saying.

Mr. WILSON. The President at this time has no particular authority to negotiate trade agreements in any area. As a general proposition, the President is given such authority to grant concessions by the Congress. There was some limited authority that was granted in the Trade Act of 1984 with respect to a very product-specific negotation, but he has no broad-based negotiating authority.

Mr. FLORIO. If you feel this is something important, have we seen any administration initiatives come before the Congress to provide for broad-based enhancement of the President's ability to negotiate better terms? I have seen none.

Mr. WILSON. There have been no initiatives to date.

Mr. FLORIO. Why not?

Mr. WILSON. The legislative area is one that is being actively considered now, and the administration could support legislation that did have such broad-based negotiating authority.

Mr. FLORIO. Your comments are very troubling because we have been working from the assumption that the administration had the negotiating authority and many have been saying this type of legislation is designed to implement whatever it was that was negotiated.

Now what you are telling us is you don't think you have the authority to even negotiate adequate agreements, much less to take some action to enforce those agreements.

Mr. WILSON. We have the authority to seek concessions on the other side. The President always has the authority to go out and negotiate. But in this particular instance the President may only make requests of the other side.

He has no specific authority to grant any concessions on the U.S. side. That is an authority that has to be provided to him by the Congress pursuant to legislation. So while the President has the authority to go out and conduct consultations and, if you will, "negotiations," in effect the negotiations going on right now are of the type in which we are seeking things from other countries but we are not really offering any specific concession on the U.S. side.

Mr. FLORIO. Last year in the trade bill that passed on the service sector, particularly telecommunications, we provided to the President a broad range of discretion in this area, and of course it has not been used yet to my knowledge. What is it beyond that, that the President seeks?

Mr. WILSON. That is correct. You are quite correct with respect to authority in the services area. I was referring to authority in the traditional trade area such as the ability to offer tariff concessions.

Mr. FLORIO. So there is no deficiency in the negotiating capability of the President in the area of this hearing and the subject of this hearing, telecommunications?

Mr. WILSON. With respect to telecommunications services, I think not. But with respect to telecommunications equipment, were we to deem that it might be advantageous in a negotiation to offer a tariff concession on specific items in the telecommunications area, under the trade tariff schedules of the United States we would not have authority to do so.

Mr. Florio. This committee is going to be having a hearing next week on a more broad-based trade reform bill, and we would hope by that time there might be some suggestions from the administration as to what specific broader range of negotiating authority the administration would like so that we can incorporate it into a more generic trade reform bill, inasmuch as you have appeared to be saying there is a deficiency in the current authority of the administration on a broad-based level.

Let me ask one last question with respect to your concern about the time limits for negotiation that are contained in this bill. We thought, and most of the responses that we have are that this is a moderate approach particularly preferable to the approach taken in the other body. For you to now say that you are concerned about the constraints of the limits on the negotiation aspects causes me some distress, because we tried to strike a balance between what we thought was too short a timeframe and no limits at all.

Because all the hearings we have had in the past, and Mr. Brock has been here and Mr. Olmer, they have all conceded that unless there are limits on negotiations, particularly with the Japanese, negotiations go on forever with no end result. Are you telling us there are no limits to negotiations that you would find to be acceptable?

Mr. Wilson. I was referring more or less to the response in terms of the retaliatory action that would be required.

Mr. Florio. I am making reference to that as well.

Mr. Wilson. I think that if you have time limits that are combined with flexibility in terms of the retaliatory response, that is one thing. If you have time limits that are combined with absolutely mandatory retaliation, that is quite another thing. So the two points——

Mr. Florio. What is the point of time limits with no end results at the expiration of the time?

Mr. Wilson. Well, of course it's our preference to not have time limits in legislation at all because we feel——

Mr. Florio. How is that different from the status quo then?

Mr. Wilson. Well, that may not be different from the status quo right now in terms of how we would like to approach the negotiation and how we would like to approach retaliatory action. And as I indicated, that perhaps more than any part of your bill gives us a great deal of trouble, this time-delineated mandatory retaliation feature of the bill. So that is an area where we would have differences, I believe, with you on this particular feature of the bill.

Mr. Florio. Let me raise one last question before my time expires. It is my understanding that potentially the administration, perhaps yourself, was prepared to tell us today that appropriately drafted legislation in this area might be acceptable; your formal statement today does not go quite that far. I don't know if there was a change from the initial thought conveyed. But are there specific recommendations that you are prepared to suggest to us that would enable the administration to sign off on legislation?

Mr. Wilson. We have no specific recommendations today. These are still being, as Secretary Smart indicated, discussed within the executive branch. I think you noticed that Secretary Smart was very conciliatory in his approach and the fact that, if I quote Secretary Smart, he said that, if amended, perhaps the administration could support such a bill.

I think that this is not too far away from what was originally going to be in my written testimony today.

Mr. FLORIO. How did the change occur as to what was originally to be in your testimony today?

Mr. WILSON. I think there was some concern that perhaps we had not thoroughly debated and arrived at a——

Mr. FLORIO. We being whom?

Mr. WILSON. The interagency process.

Mr. FLORIO. Do I detect the fine hand of OMB in any of this?

Mr. WILSON. The interagency process obviously included a number of different agencies. So I think that Mr. Smart and I both believe that it would not be proper to come out and say today that we could support a bill if amended but rather that are actively considering how we should proceed in telecommunications legislation. I think that you can take that as you have, as a possible conciliatory signal if you wish, and I certainly would not oppose an interpretation of that type.

Mr. FLORIO. Thank you very much. My time has expired. The gentleman from New York is recognized.

Mr. LENT. Thank you, Mr. Chairman.

Mr. Wilson, I just want to go over this for my own edification and clarification. The part of the bill that you have trouble with is not that portion which makes telecommunications trade policy a major priority; you have no problem with that?

Mr. WILSON. The administration believes we should place high priority on telecomunications.

Mr. LENT. OK. The part of the problem that you have a problem with—you say, if amended, the administration could support it—is that provision which orders the President to retaliate if negotiations fail to convince a particular trading partner to significantly reduce trade barriers. Is that correct?

Mr. WILSON. Well, that is certainly one of the areas of the bill that causes us problems.

Mr. LENT. Is there something else in the bill that causes problems?

Mr. WILSON. There are other things in the bill that I have not covered in my summary testimony, sir.

Mr. LENT. But that is a major sticking point, is it not?

Mr. WILSON. That is a major sticking point. As Secretary Smart indicated, probably the philosophic sticking point is having sectoral legislation at all. There is a very real concern within the administration that once you begin to draft sectoral legislation you go down the path that ultimately may not be in the best interests of this country. In this particular case we are talking about a sectoral bill that is aimed at a very export-oriented industry and one that is very healthy. But we—sorry, I just think there is more to it than just the time delineation. I emphasize that because that is a very key point.

Mr. Lent. But it is true that by the terms of this legislation the President is given broad discretion as to how he might choose to retaliate; is that correct?

Mr. Wilson. That is correct. That is my understanding.

Mr. Lent. Now, what would you want? You would want some sort of a provision that would give the President full discretion if negotiations failed, that is, that he ought to be free to decide not to retaliate at all even if one of our trading partners refuses to remove unfair trade barriers?

Mr. Wilson. That would certainly be our preference, Mr. Lent. I might note, in passing, that it's interesting that we do have rather broad retaliatory authority available to us under section 301 of the Trade Act and to date to my knowledge no one in the telecommunications industry has ever approached us to invoke that particular provision of law.

Mr. Lent. Let me just turn to the bottom of page 4 of your statement where you indicate that with the deregulation of the telecommunications market in the United States and divestiture of AT&T the real concern of the administration is the future competitiveness and trade position of U.S. industry. You point out that imports of sophisticated telecommunications equipment are now entering the United States in very large and significant numbers and the newly divested operating companies and specialized common carriers have begun purchasing significant amounts of foreign equipment. You indicate this trend, so far as you know, is going to continue.

The judicial consent decree that broke up Bell prohibits the Bell companies from manufacturing telecommunications equipment themselves; is that correct? And, the Bell companies' hold about 50 percent of all telecommunications assets of this country, yet those companies are prohibited from manufacturing telecommunications products. My question is, if these companies were allowed to compete in the manufacturing business, don't you think this might help improve our telecommunications trade imbalance by giving us more of a defense against imports and an offensive to increase exports?

Mr. Wilson. If the laws of the marketplace were to hold in this particular case, one could arrive at that conclusion, I think. I have no specific studies or anything to back up such a conclusion, but one would think if the laws of the marketplace held, yes, that that is a fair——

Mr. Lent. Here we have all these Bell operating companies and others that are buying foreign-made products because of this provision in the consent decree that prohibits them from manufacturing themselves. What I am suggesting to you is perhaps one way we could change this situation would be to loosen up the consent decree and permit the operating companies to do manufacturing on their own.

Mr. Wilson. I really can't comment on that because I am not privy to the specifics of that consent decree or what the judicial considerations that went into that consent decree were.

Mr. Lent. Thank you. My time has expired.

Mr. Florio. The gentleman's time has expired. The gentleman from Colorado is recognized for 5 minutes.

Mr. **Wirth**. I thank the chairman.

Going back to your earlier statements, Mr. Wilson, about the President's lack of negotiating authority, it is our belief that the President has the negotiating authority, and our bill specifically says that negotiation is the preferred approach. The issue then becomes: Does the President have, or does he not have, the negotiating authority, which I think is the issue raised in your discussion with Mr. Florio.

It might be appropriate to quote from the law, the Trade and Tariff Act, section 128, "modification and continuance of treatment with respect to duties on high technology products." It says, "the President may proclaim, subject to the provisions of chapter 3, such modification or elimination or continuance of any existing duty, duty-free or excise treatment or such additional duties as he deems appropriate. He shall exercise his authority under subsection (b) only with respect to the following items" and listen to what he can do—"transistors, diodes, and rectifiers, monolithic integrated circuits, other integrated circuits, other components"—about anything you want to make it—"parts of semiconductors, parts of automated data processing machines and units thereof." He has an enormous authority, Mr. Wilson, right here. We believe that he has enough authority. He has plenty of authority.

In fact, in this particular area, if he needs other authority we ought to know about that. As of now, this committee does not have jurisdiction over how this country relates to others but we can certainly provide the President with authority in the particular area related to telecommunications, which is the focus of the Commerce Committee. I would refer you to the legislation and hope you might let us know if in fact this is not adequate. We thought it was.

Mr. **Wilson**. Thank you for the clarification. I think I mentioned there was a particular provision and in fact you have quoted from that provision in section 128. That particular provision we believe is rather limited in terms of its product coverage and that if we wanted to get into a broad-based telecommunications negotiation that the products covered under their "other components," while it may sound rather expansive in terms of the tariff schedules of the United States, there are specific products in telecommunications equipment trade that we think should be included in the negotiating authority.

Mr. **Wirth**. It is the intent of the legislation, and the record makes it clear, the President has all the authority he needs. The question is one of exercising that authority. Then we get to what kind of flexibility does he have and what time line. Again, we believe that the first posture that you stated in your discussion with Mr. Florio of what would be an acceptable time line with flexibility and we think we have precisely that in the legislation: flexibility, discretion, within a timeframe and over an 18-month period of time. The President shall conduct the finding, if there is discrimination going on against American products, you are familiar with this. And if that occurs, and the President makes that finding, then he goes ahead and acts. It is up to him to act in an appropriate way. We think he has plenty of authority to act.

What we are saying is if he doesn't act he has 18 months and if he doesn't do anything, having made his own finding, then the legislation kicks in and the sanctions kick in. Again, it is our belief, and we would like to have your clarification if this is not adequate. But we are on the same wavelength as with the discussion with Mr. Smart.

Mr. **Wilson**. I will seek to clarify existing authority. It was my understanding that that authority was narrowly drawn to deal with a particular negotiation involved in with Japan. Then it was not a broad-based authority. But I will clarify that for you.

Mr. **Wirth**. This legislation is not specific with Japan. I would repeat that. There is a certain fashion today of trying to go after just one or two countries or whatever; we do not do that in the bill and in fact in the findings of the bill we make it clear that we do not intend that that be the case.

Mr. **Wilson**. I understand that, Mr. Chairman, and as I said, I will clarify it. I think that particular provision of law was drafted rather narrowly for a particular negotiating situation with Japan that was going on at the time.

Mr. **Wirth**. In this situation I have quoted from the 1984 bill, if you go back to the 1974 trade legislation, in that the President has just about all the authority anybody could ever want to have.

Mr. **Wilson**. That tariff-cutting authority expired, Mr. Wirth, in the 1974 bill.

Mr. **Wirth**. That legislation is still intact until next year, I believe; isn't that correct?

Mr. **Wilson**. That is only with respect to negotiating on nontariff measures. With respect to tariff measures, that authority has expired.

Mr. **Wirth**. Then we have tariff measures here and nontariff measures in the other bill, and the President has a pretty complete package, I think. But again, let us hear from you.

Mr. **Wilson**. Yes, sir.

Mr. **Wirth**. About what you hear or feel is not available. We think it is expansive, and we just want the administration to get aggressive on this front and open up those other markets. That was what we are all trying to accomplish. Thank you, Mr. Wilson.

Mr. **Wilson**. Thank you.

Mr. **Florio**. The time of the gentleman has expired. We have a vote pending on the House floor. The committee will take about a 10-minute recess and then reconvene.

[Brief recess.]

Mr. **Wirth** [presiding]. If the subcommittee will please come back to order.

Mr. Wilson, I don't know if there are further questions. I am sorry. I thought we would have other members coming back. We will leave the record open for questions from the members to the USTR and would hope you would also get back to us as I urged Secretary Smart to do with your comments and thoughts, realizing there is no policy position, perhaps there are points of clarification, whatever you think would be appropriate and we can work together on that front. We greatly appreciate your being here and I would ask if you have any further comments that you might like to make for the purposes of the record at this point.

Mr. **Wilson**. Thank you very much, Mr. Chairman. I think I would like to make one final observation here that I think bears on this discussion and I alluded to that in my opening remarks. That was the necessity for the Government institutions of this country, industry and labor to work together on this problem.

Bearing that in mind, I would like to point out to the subcommittee and yourself that we recently received a communication from one of our advisory committees, our Industry Sector Advisory Committee. You may be aware we have a number of private sector advisory committees that advise us on the whole range of trade issues.

This particular private sector advisory committee is nominated ISAC-5, and deals with electronics and instrumentation and covers telecommunications interests in that committee. They ask that Ambassador Yeutter make known to the Congress their views on this particular issue and they put forward some recommendations for U.S. actions.

I would just like to read those out for the record here today because I think it does have a very important bearing. Of course, you have two further panels who will be discussing this but these are recommendations that Ambassador Yeutter has received and I would like those to be reflected in the record.

One, the U.S. Government should undertake multilateral and bilateral negotiations to reduce barriers.

Two, the U.S. Government should offer incentives, if necessary, to other countries to reduce barriers.

Three, the U.S. Government should monitor results of agreements to determine if sales of U.S. products and services are commensurate with the competitiveness of U.S. companies.

Four, the U.S. Government should have flexible authority to restore equivalents through market access actions if negotiations fail or agreements do not result in equivalent market opportunities.

And finally, legislation is essential to ensure prompt administration actions to negotiate barrier removal.

I think those are recommendations from a broad section of our advisory group that Ambassador Yeutter, as he moves forward in carrying out his task, will pay a great deal of heed to and I think that I just wanted to alert you to those at this particular time because obviously these recommendations will be part of the debate as we move forward here.

Mr. **Wirth**. Thank you very much, Mr. Wilson. I think the first four recommendations they come out with are reflected in our approach toward findings and flexibility and the five we would agree completely with them about the need for the expeditious passage of legislation.

I might add as well that we believe that the negotiating authority is there for the administration. I find it a little bit confusing that the administration would go for 5 years and never say anything about not having enough authority, and when the pressure comes on to do something, for them to turn around then and say we don't have the authority to do it is a little bit disingenuous approach, I think, but we can work our way through that one as well.

I realize the political problems that exist within the confines of the administration.

Mr. **Wilson**. I don't think I will respond to that.

Mr. **Wirth**. There is no reason for you to do so.

Mr. WILSON. I don't think it is necessary at this point.

Mr. WIRTH. Thank you very much for being here and give our thanks to Mr. Yeutter who was invited to be here as well and couldn't be here.

Our next panel includes three distinguished members of the American telecommunications and electronics communities. You all are familiar, I believe, with the rules of the Energy and Commerce Committee.

We will include your statements in full in the record and would ask you to summarize those statements in 5 minutes or less and we will then go to questions. Perhaps we will start with you, Mr. Hinds, and go to Mr. Lee, and Mr. McDonnell, if that is an appropriate order.

Thank you very much for being here.

STATEMENTS OF JOHN A. HINDS, ON BEHALF OF AMERICAN TELEPHONE & TELEGRAPH CO.; YONG TUCK LEE, PRESIDENT, M/A-COM MAC, DIVISION, AND ALSO AMERICAN ELECTRONICS ASSOCIATION; AND JOHN J. McDONNELL, GROUP VICE PRESIDENT, INFORMATION AND TELECOMMUNICATIONS TECHNOLOGIES GROUP

Mr. HINDS. Thank you very much, Mr. Chairman.

It has been an interesting morning. It is a pleasure to have the opportunity to be with you today and share AT&T's views on the important issue of telecommunications trade. My name is John Hinds and I am vice president of AT&T International. First, let me compliment Congressmen Florio and Wirth and the members of their respective committees for their timely introduction of H.R. 3131.

Telecommunications is the fundamental infrastructure by which advancement in trade in services will take place. However, at the conclusion of the Tokyo round of the GATT, trade in telecommunications was an unfinished agenda item. The worldwide telecommunications industry was thus left apart from the GATT system. That fact, coupled with the domestic policy within the United States that encourages more competition and less regulations in our telecommunications industry has resulted in the equivalence of a unilateral trade concession to our major trading partners. In the first half of 1985 the telecommunications trade deficit reached $689 million, an increase of over $120 million for the same period of 1984.

Based on these alarming statistics, some would propose protectionist remedies. However, AT&T does not support such proposals. We do support access to foreign markets which would not only enhance the leadership of the U.S. telecommunications industry, but would also benefit our international customers with state of the art technology.

For example, access to the Canadian telecommunications equipment market is limited by a number of substantial barriers. Today Canada charges a 17.8 percent tariff on imported telecommunications products, compared with a U.S. tariff that is 7.8 percent.

These and other barriers protect the Canadian suppliers while denying Canadian consumers the price and performance advantage of U.S. technology.

Canada has recently announced intentions to enter into bilateral trade talks with the United States. We favor this action and suggest strongly that telecommunications be an important part of these negotiations.

Another country in the trade spotlight has been Japan. Unlike Canada, a series of bilateral negotiations have been underway since January to address telecommunications market access in Japan. The Japanese have been a willing negotiator, and the results so far have been encouraging. Japan recently announced that certain tariffs would be reduced from 5 percent to zero on April 1, 1986. Also there have been other improvements including significant simplification of product certification procedures. Under the new business enterprise law, value added network business opportunities have been opened up. And, of course, the formerly state-owned NTT is becoming a private corporation.

To demonstrate our commitment to international customers, we have made significant investments in both the Japanese and the Canadian markets. Business opportunities in Japan based on market access negotiations are encouraging, but Canadian market access is discouraging.

Based on our experience, we feel negotiated access to telecommunications markets have begun to yield results. We believe that the intent of H.R. 3131 is to stress access to foreign markets. AT&T supports this goal. The bill provides for a 18-month period to allow the Secretary of Commerce to formally review and determine if foreign markets are accessible to the U.S. telecommunications suppliers. In addition, we suggest that the President be granted the authority to enter negotiations with our major trading partners for purposes of negotiating agreements for market access. This addition would further emphasize the reliance on negotiated market access that H.R. 3131 acknowledges as the basic mechanism for achieving open trade in telecommunications.

We support the bill's use of section 301 which provides a flexible mix of options to deal with trade inequities. However, H.R. 3131 also adds new trade responsibility for the FCC. The FCC has, until now, been involved solely in regulatory matters. For that reason, we believe that use of section 301 is adequate for the purposes of this bill, given a greater willingness on the part of the administration to use this remedy in the high technology sector.

Furthermore, the FCC has struggled with the distinctions between basic and enhanced communications services throughout its computer inquiries. In the recent FCC Computer Inquiry II order, it proposed to abandon a definitional approach to this matter. Therefore, we recommend that H.R. 3131 be amended to eliminate the definition of telecommunications services. However, the desired access to foreign telecommunications networks for purposes of providing new, creative and advanced applications can be accomplished by instructing the U.S. negotiators to take such access into account as part of their negotiations.

I wish to thank Chairman Wirth and Chairman Florio and the members of the respective subcommittees for the opportunity to comment on H.R. 3131. We look forward to working with you and your staffs to enhance the access of the U.S. telecommunications companies to foreign markets. We appreciate your leadership on this issue and look forward to working with you and other Members of Congress to successfully resolve this matter during this session.

Thank you.

[The prepared statement of Mr. Hinds follows:]

STATEMENT OF JOHN A. HINDS

My name is John Hinds and I am Vice President at AT&T International. We are pleased to participate in these hearings on H.R. 3131, "The Telecommunications Trade Act of 1985." Representatives Wirth and Florio, the members of the committees, and the co-sponsors of H.R. 3131 should be commended for their bipartisan efforts to examine and resolve the serious problems in international trade that confront the U.S. telecommunications industry today.

American Telephone and Telegraph Company is composed of a Corporate Headquarters staff and two sectors -- AT&T Communications and AT&T Technologies.

AT&T Communications is the long distance telecommunications arm of AT&T, offering domestic and international telecommunication services to residence and business customers in the U.S.

AT&T Technologies is the entity that oversees the development, manufacturing and marketing of a large and highly integrated array of telecommunications and information products and services, ranging from switching and transmission systems to computers and advanced microcomponents.

AT&T's principal overseas presence is provided by AT&T International and augmented by a number of mutually beneficial joint ventures and cooperative agreements with other companies and telecommunications agencies.

AT&T business is the electronic movement and management of information -- in the United States and around the world. We design and manage complex, interactive systems that bring communications and data processing technologies together to meet the individual needs of customers.

Our people provide:

- Domestic and international long-distance telecommunications services for residence and business customers and special voice, data and video services for businesses and governments.

- Network systems -- switching, transmission and computer-based operations support systems -- for telecommunications companies and governments.

- Information systems for businesses of all sizes -- including office communications systems, enhanced networks, workstations, computers and software.

- Telephone and other related products and services for consumers.

- Special systems for the Federal government.

- Electronic components, including computer memory chips and microprocessors, for our own use and, selectively, for outside sale.

AT&T has been increasing its involvement in the world marketplace through the expanded efforts of AT&T International, an overseas marketing, sales, and service organization now active in 40 countries.

To a significant extent, the problems facing the U.S. telecommunications industry flow from unfinished business in the Tokyo Round of the GATT Multinational Trade Negotiations (MTN). The Tokyo Round produced a number of important trade agreements, including guidelines for government procurement. Not included in the agreement on procurement, however, were telecommunications providers -- Postal, Telephone, and Telegraph Ministries (PTT's) and others. The worldwide telecommunications industry thus was left apart from this important aspect of the trading conventions of GATT. Therefore, procurement decisions for telecommunications technology are not subject to the same international standards that govern other technology....the GATT agreement on government procurement simply does not apply.

The Tokyo Round began in 1973 and concluded in 1979, a period during which the U.S. telecommunications industry was moving rapidly toward more competition and less regulation. This trend accelerated through the early years of this decade. In 1980 and 1981, the Federal Communications Commission (FCC) essentially removed customer premises equipment and enhanced services from regulation. And on January 1, 1984, the structure of the industry was dramatically altered with the divestiture by AT&T of its local telephone companies. All of these events represented a unilateral trade concession for our major trading partners, and today the U.S. telecommunications market is open to any and all foreign suppliers. The extent to which foreign suppliers took advantage of this opportunity is reflected in this Committee's trade statistics: telecommunications imports have increased by 166 percent since 1980, while exports rose just 40 percent. This development carries even greater weight when it is recognized that the U.S. comprises 45-48 percent of the world demand for telecommunications technology.

At the same time as opportunities for foreign telecommunications producers were being expanded at an unprecedented rate in the U.S., other nations chose not to take such a course. In many cases, the status quo was maintained; in some nations, U.S. producers encountered still greater market restrictions and limitations.

A variety of barriers have impeded open trade in telecommunications. These include government procurement favoring "home country" suppliers; direct government support of "targeted" industries; high duty rates on selected products; licensing restrictions; inadequate patent and copyright protection; and onerous certification/registration procedures.

For example, the Canadian telecommunications equipment market is limited by a number of substantial trade barriers. Bell Canada Enterprises, the owner of Bell Canada and Northern Telecommunications, exercises control over the majority of the Canadian market. This corporate structure coupled with procurement procedures sanctioned by the Canadian Radio and Television Commission (CRTC) precludes open competition. At the same time, Canadian tariffs on telecommunications imports are kept at artificially high levels -- 17.8 percent, compared to U.S. tariffs of about 7 percent. This yields an automatic 10.8 percent price advantage for domestic Canadian telecommunications products over imports. In addition, the Canadian government grants Canadian firms an additional 10 percent comparative advantage when competing with foreign producers. Prime Minister Mulroney recently announced intentions to enter into bilateral discussions with the U.S. in an effort to develop a Free Trade Agreement. AT&T supports this effort and encourages the Congress to grant the President necessary authority to begin talks. We also hope that telecommunications is a high priority item on the agenda. Opening of the Canadian telecommunications market will provide Canadian consumers the price performance benefits of superior U.S. telecommunications technology.

The inequities which U.S. telecommunications producers face abroad have justifiably raised great concern in Congress. The industry is seeking to repair the deficiencies of the last GATT negotiations without waiting for another lengthy round of talks to begin. The problem is too serious to be put off any longer. We do not seek protection, we seek access to foreign markets and we are pleased to see that your subcommittees and other members of the Congress supports the industry's desire for access to international markets.

Despite the serious problems facing the industry referred to above, the Executive Branch has been notably reluctant to engage in negotiations to correct these problems. Negotiation efforts to the extent that occurred, focused on other sectors of our economy. This is in part, no doubt, due to the fact that the U.S. maintained a surplus in telecommunications equipment trade until recently, despite the numerous barriers faced. Also, the view has persisted that since most equipment manufacturers were large multinational corporations these problems could be resolved by the industry itself. This viewpoint resulted from a misunderstanding of the nature of governmentally imposed non-tariff barriers which businessmen were helpless to remove. As a result, these same multinational corporations today find themselves rapidly losing market share. Although sufficient authority exists under current trade legislation to remedy many of these problems, the Administration has chosen not to do so due to the unpleasant task of having to to negotiate these problems with many of our allies. I believe these facts are consistent with the findings and purposes of H.R. 3131. AT&T, therefore, supports these legislative initiatives which would focus negotiating objectives on the unique problems facing our industry and direct the President to take action against those countries which refuse to negotiate or make significant market opening efforts.

However, in contrast, a series of bilateral negotiations is underway with Japan, who has been a willing negotiator. The results so far have been encouraging. Japan recently announced that certain tariffs will be reduced from 5 percent to zero on April 1, 1986. There has been significant simplification of the product certification process in Japan. Under the new Business Enterprise Law, value added networks (VAN's) no longer have to be registered. Foreign ownership limitations on VAN's have been eliminated. And, of course, the formerly state-owned NTT is gradually migrating to a private corporation, which should result in increased procurement of imported telecommunication technology.

The Administration and the Congress are playing a valuable role and deserve our compliments. The telecommunications industry actively involved in the discussions. The Japanese, in turn are negotiating in good faith, so that substantial progress could be achieved.

Progress in bilateral trade negotiations with Japan has been heartening. What is needed now is similar talks with other trading partners -- such as Canada and members of the European Economic Community -- who continue to maintain trade barriers to their telecommunications markets.

But the real measure of success in the international telecommunications market is the willingness of the consumer to buy U.S. telecommunications technology. AT&T is a world leader in our industry; we can compete with any supplier in terms of performance, quality, and price. Recent reductions in regulatory burdens, have enabled AT&T to become more market focused, and our products reflect the new environment. For example, in 1985 we will become the world's leading producer of digital switching technology. However, we realize that superior technology alone will not achieve the business results we desire. Products have to be coupled with a commitment by the corporation to invest the resources required to demonstrate this commitment to the international customer. That is why we have made a significant commitment in the Japanese market. We have opened a Tokyo office and are vigorously pursuing business. We also realize that we must tailor our products to the particular needs of the Japanese market, and we currently are doing just that. We are working with a consortium (including: The Industrial Bank of Japan, Sony, Fujitsu, and Hitachi) to provide Japanese business with value-added network technology. We will market small telephone systems in Japan via a joint venture with Ricoh Company, Ltd., who will also be distributing AT&T 3B computers.

We believe that the intent of H.R. 3131 is to stress access to foreign markets, and AT&T supports this goal. The bill provides for a period of 18 months to allow the Secretary of Commerce to begin a formal review to determine if foreign markets are accessible to U.S. telecommunications suppliers. In addition, we suggest that the bill be modified to grant the President the authority to enter negotiations with our major trading partners to seek to open foreign telecommunications markets. Also as part of this negotiating authority, the President should be empowered to make necessary concessions in return for access to foreign markets. These additions would further emphasize the reliance on negotiation that H.R. 3131 acknowledges as the basic mechanism for achieving open trade in telecommunications and could proceed concurrently with the Secretary of Commerce's study.

If the Secretary of Commerce finds at the conclusion of his study that a foreign country is denying market access to U.S. suppliers that is substantially equivalent to the access afforded foreign suppliers in the U.S., the President is required by H.R. 3131 to determine the proper action to achieve equivalent access. In this regard the President has two options. Action may be taken under Section 301 of the Trade Act of 1974, which offers a variety of measures. Or, the President may direct the FCC to implement appropriate action.

We note also that besides the Secretary's initial investigation, any interested person can petition the Secretary to make a determination as to whether equivalent access in a particular foreign market is being denied to U.S. telecommunications suppliers. This provision is useful in that it serves to widen the investigatory role established by the bill.

We support use of Section 301, which provides a flexible mix of options to deal with trade inequities -- from tariff increases to service authorization denials. Whether the Communications Act of 1934 should be amended to provide the Federal Communications Commission with a role in international trade remedies we think requires further consideration. At present, about a dozen governmental departments and agencies are involved in various aspects of international trade. The complexity that results is considerable. H.R. 3131 adds new trade responsibility in an agency that until now has been involved solely in the regulatory activities. Also, there is Constitutional concern about permitting the President, or any Executive Branch agency, to direct the actions of an independent regulatory agency like the FCC. Would U.S. trade interests would perhaps be better served by relying on Section 301 provisions exclusively for remedies.

In Section 3, the bill defines "telephone service" and "telecommunications service." The proposed new multilateral trade negotiation by members of the GATT plans to discuss trade in services in the context of including services as part of the GATT treaty. The U.S. telecommunications industry is now struggling with the role telecommunications services would play in these discussions. Presently, there is much that is unknown about what trade in telecommunications services involves from a GATT perspective. Yet, we know a great deal about what is needed to improve trade in telecommunications products. At present, we are primarily involved in solving problems regarding trade in products; this should be accomplished before problems about trade in telecommunications services are addressed.

We also have some concerns about definitions of telecommunications and telephone services, which under the bill include basic telephone exchange services. However, U.S. companies are interested in providing value-added or enhanced services abroad, not basic services, which is usually the exclusive responsibility of state-owned PTT's or national telecommunications service suppliers. Defining such terms as "value added" or "enhanced" in legislation in relation to how a U.S. regulatory agency defines basic telephone service presents another set of problems. Such a definition would be very difficult to determine accurately as technology advances over time, and would not only quickly become outdated by the rapid pace of innovation in the telecommunications industry but would fail to take into account the diversity and differences in service opportunities from one country to another.

The FCC has been wrestling with attempts to define the differences between data processing and communication since the initiation of Computer Inquiry I. Furthermore, they have struggled with the distinctions between basic and enhanced communications services throughout

Computer Inquiry I and Computer Inquiry II deliberations. The FCC's recent Computer Inquiry II order found that a definitional approval was unworkable and abandoned it. These kinds of definitional complications prompt us to recommend that H.R. 3131 be amended to eliminate the definition of telecommunications services until more is known about international trade in services and focus instead on the more pressing problems of trade in telecommunications products. The issue of access to services provided by foreign telecommunications service provides for purposes of providing new, creative, and advanced applications can be accomplished by instructing the U.S. negotiators to take into account such access as part of their activities.

In summary, AT&T believes that the intent of H.R. 3131 is to stress access to foreign markets, primarily through negotiation, and we support this goal. We suggest the bill be modified to grant the President the authority to enter negotiations with our major trading partners to open foreign telecommunications markets. We also support use of Section 301, which provides a flexible mix of options to deal with trade inequities. Whether the Communications Act of 1934 should be amended to provide the FCC with a role of internatioal trade remedies we think requires further consideration, as this would add greater complexity to U.S. administration of trade activities and bring new trade responsibility to an agency that until now has been involved solely in regulatory activities. AT&T recommends that this provision be modified or deleted. Finally, H.R. 3131 should exclude consideration of telecommunications services -- an extremely difficult area to define in a lasting, workable manner -- and should focus exclusively on the more pressing problems of trade in telecommunications products.

We thank Chairmen Wirth and Florio, and the members of these committees, for the opportunity to comment on H.R. 3131. We will gladly assist you in attempting to reduce the trade barriers that work to the advantage of foreign suppliers and the considerable disadvantage of U.S. telecommunications companies and their employees.

Mr. **Wirth**. Thank you very much, Mr. Hinds.

We thank AT&T as well for their assistance as we are attempting to understand this situation and work our way through it.

Mr. Lee.

STATEMENT OF YONG TUCK LEE

Mr. **Lee**. Chairman Wirth, I want to thank you, Chairman Florio, and the subcommittee for the opportunity to appear before you today and discuss the need to open up foreign markets for U.S. telecommunications equipment.

My name is Yong Tuck Lee. We are a Fortune 500 suppliers of telecommunications equipment and microwave components in the commercial and defense markets. In addition to appearing on behalf of M/A-COM, I am also testifying for the American Electronics Association.

At the outset I want to say AEA and M/A-COM support the goal and objectives of H.R. 3131, H.R. 3350, and H.R. 2037, since these bills are intended to create tools to open up foreign markets.

Based on our experience, we believe these tools are needed. While the focus today is on H.R. 3131, I do want to acknowledge Congressman Markey in his bill H.R. 3350, since he represents the district around Billerica, MA, where my plant and offices are located.

There are several basic principles that our industry supports for inclusion in any legislation. First, the administration should have a mandate for negotiating the elimination or reduction of telecommunications trade barriers. Second, monitoring of trade agreements for determining whether progress is being made toward greater access and, finally, the U.S. Government must take action to enforce existing trade agreements.

However, I am not here today to discuss the key detailed language of these bills. I am not an expert on trade legislation and I am here today to share with you the experiences I have had in trying to sell my products in Japan.

About a year ago we were approached by a potential customer in Japan who wanted to buy our microwave radios for cable TV application. We followed up by exhibiting at the Japanese CATV trade show and received many inquiries.

We then met with the Japanese Ministry of Posts and Telecommunications, the JMPT, but we were discouraged from selling our radios because the radios did not meet some of the technical specifications required in Japan.

These radios meet the U.S. specifications comfortably and today we have a 75-percent market share in the U.S. market based on FCC data.

We also meet the standards of many countries and we also currently distribute this radio to 13 countries including eight European countries, but not Japan. In addition, in order to meet the Japanese specifications, our manufacturing costs would increase by one-third.

This increased cost made it unattractive to the potential customers to continue discussions with us; clearly a discouraging situation. Beginning earlier this year, we sensed the political climate was changing when we saw the success of the U.S. Government in clearing the regulatory barriers for telephone terminal equipment.

Furthermore, the liberalization of Japan's domestic telecommunications market in April heralded new opportunities to offer alternative services to the NTT.

So in August 1985, we prepared a written request translated into Japanese to the JMPT to adopt several technical standards. During the week of September 2 and September 16, I visited Japan and met with a number of officials from the JMPT. This time the response was more encouraging and reflected a sensitivity to growing U.S. trade pressure and Prime Minister Nakasone's encouragement to be more open to foreign goods. JMPT officials were cordial and provided useful advice, but were not able to reach a decision on our request.

We hope they will decide soon and we hope they decide in our favor. Also, during these two visits to Japan, I met with several potential customers.

They are definitely interested in buying my microwave radios and are eagerly awaiting the outcome of the JMPT decision. I am convinced the positive response of the JMPT and the potential customers is largely due to the pending legislation and other pressures brought to bear by the United States in the telecommunications trade.

I am also convinced if the pending telecommunications market legislation does not pass, there is strong likelihood that Japan and other countries will not proceed expeditiously to adopt a more open market environment and that the trade deficit in telecommunications equipment will continue to mount.

We do not depend only on the Government for success in international trade. We recognize that the primary responsibility for success in foreign markets rests with industry.

We will do our share. As an example, I note that the American Electronics Association has recently opened an office in Japan to provide assistance to any United States electronics company.

So has the Electronics Industry Association who, by the way, my colleague, Mr. McDonnell here, introduced me personally to JMPT officials in Tokyo. In spite of the efforts of industry, our experience so far has shown that industry cannot do it alone.

The continued support of the United States Government and its agencies is required to cohesively and effectively create the environment for United States industry to be welcome in Japan. We have built up a good head of steam so let's not lose momentum.

Market opening legislation is needed to sustain the pressure so that U.S. manufacturing will not be foreclosed from important parts of the world market place. Without passage of this legislation, the gains of important market access achieved this past year would easily be undone in the future.

This Congress has been instrumental in the progress we have achieved to date and I thank you for your help. I also look forward to working with you in the future.

Thank you for your time. I will be pleased to answer any questions you might have.

[The prepared statement of Mr. Lee follows:]

STATEMENT OF YONG TUCK LEE

President of M/A-COM MAC Division
before the
Subcommittee on Commerce, Transportation and Tourism
and the
Subcommittee on Telecommunications, Consumer Protection and Finance
of the
Committee on Energy and Commerce
U.S. House of Representatives
on behalf of M/A-COM and the American Electronics Association
October 1, 1985

My name is Yong Tuck Lee and I am President of the M/A-COM MAC Divison of M/A-COM, Inc. M/A-COM is a leading designer and manufacturer of electronic telecommunications equipment and systems for satellite communications, data communications, television broadcasting and cable television. M/A-COM is also a leading supplier of electronic components and subsystems for defense communciations and electronic warfare systems.

I want to thank the Subcommittee for this opportunity to appear before you today and discuss the need for legislation to open up foreign markets for U.S. telecommunications equipment. In addition to appearing on behalf of M/A-COM, I am also testifying for the American Electronics Association. The AEA represents more than 2,800 high technology companies from all segments of the electronics industry, including telecommunications, computers, software, semiconductors, instruments, and so forth. The AEA membership includes companies of all sizes from "start-up" to the largest companies in the industry, but the largest number (71%) are small companies employing fewer than 250 employees. Together, our companies account for 63% of the worldwide sales of the U.S.-based electronics industries.

At the outset, I want to say that AEA and M/A-COM support the goal and objectives of H.R. 3131, H.R. 3350 and H.R. 2037, since these bills are intended to create tools to be used to open up foreign markets. Based on our experience, we believe that these tools are needed.

However, I am not here today to discuss the detailed language of these bills or the intricacies of international trade policy. I am not an expert on trade legislation, I am a businessman. I am here today to share with you the experiences I have had in trying to sell my products in Japan. In describing my experience with Japan, I want to emphasize that the U.S. industry has difficulty in selling telecommunications equipment and services to almost all major markets. In fact, given recent Japanese liberalizations in this area, our difficulties in selling to a number of other countries may be greater than in Japan. Nonetheless, I believe our experiences in Japan will help shed light on U.S. exporters' difficulties.

In the last several weeks, I have had some apparent success in dealing with Japanese customers. I am convinced that this success is due to the pending legislation and other pressures brought to bear by the U.S. Government in telecommunications trade. I am also convinced that if the pending telecommunications market access legislation does not receive vigorous support, or if the U.S. Government does not keep up the pressure, there is a very strong likelihood that it will be "business as usual" in Japan and other countries, and the trade deficit in telecommunications equipment will continue to mount.

I head the division of M/A-COM that manufactures and sells point-to-point microwave communications equipment. My customers include broadcasters, CATV operators, common carriers and private corporate users.

About two years ago, we were approached at a telecommunications trade show in the midwest by a Japanese cable television operator. He expressed an interest in one of our new microwave radios for video transmission. Then, about a year ago, the cable TV operator asked us for a price quotation for the product.

After some investigation, it became clear that we would have to seek approval from the Japan Ministry of Posts and Telecommunications (MPT) before we could sell our equipment in Japan. So in December 1984, we made an oral presentation to staff members of the MPT, seeking the necessary approval.

We were discouraged by the MPT from selling our radios at that time. The reason they gave was that the technical specifications were tighter in Japan than in the United States, and time was needed to consider our technical specifications. Even though we meet the technical standards in the United States and much of the rest of the world, our radio did not meet Japan's technical standards. We estimated that a redesign of the radio would be necessary to meet the Japanese standards, which would raise the cost by at least thirty percent.

By the way, we have sold this same radio in eight European countries, Australia and Yugoslavia. It meets the technical standards in the FCC Rules and Regulations, as well as the technical standards in the International Radio Regulations, but did not meet the standards of the Japan Ministry of Posts and Telecommunications. Although there are six U.S. manufacturers that make comparable equipment in the same frequency band, there is only one Japanese manufacturer that now makes equipment for this band.

While the original potential customer was interested in the video version of the radio, we also felt there also was a market for the voice and data version of the radio. The new start-up Type I carriers in Japan are now constrained to deal with Nippon Telephone & Telegraph for local channels between their backbone networks and customer premises. Because NTT controls the local channels, the new carriers must bring business to NTT at the same time they are trying to offer alternative services to the NTT. We felt a new market existed, whereby the new carriers could use point-to-point microwave to offer an alternative to NTT's local channels.

In addition to this potential new market, we also recognized that the climate in Japan might be changing. The U.S. Government support for telecommunications trade with Japan was successful, earlier this year, in clearing away regulatory barriers for terminal equipment. We hoped that this support would extend to include radio equipment.

With both the political climate and the potential market in mind, we decided not to give up.

In August, we prepared a written request to the MPT. This request contained all of the same information that would be included in a petition to the FCC to change technical standards. In addition to changes in technical specifications, the request asked that eligibility be broadened to include private companies as well as carriers and cable television operators, as it does in this country.

We had the request translated into the Japanese language, because we were conscious of complaints made in the past when U.S. companies had approached the Government of Japan with proposals that had not been translated into Japanese.

During the week of September 2, I went to Japan and presented the request to the MPT for their preliminary review. I met with several senior officials of the Ministry, who provided us with useful advice. I believe that this positive response was motivated in the spirit of Prime Minister Nakasone's public encouragement to be more open to foreign goods. It was evident from the ensuing discussion that the MPT is working hard to review our request.

I made another trip to Japan the week of September 16. At this point in time, the MPT has not yet decided whether to adopt the proposal we submitted, so we must reserve judgment on the success of this effort. We are prepared to have patience. We recognize the danger that Japanese manufacturers will catch up with us during this waiting period. We hope for the best.

If M/A-COM is successful in its request to the MPT, this chapter for M/A-COM in Japan would only be the beginning. We view the Japanese market as the second largest market in the free world. We believe our equipment and components to be of world class, and we expect to compete through our representatives and subsidiaries around the world. Therefore, we have a reasonable expectation to be a significant participant in Japan's deregulated telecommunications market.

M/A-COM and other electronics companies will undertake major efforts to be successful in the Japanese and other markets if given a chance to compete. We recognize that the primary responsibility for success in foreign markets rests with industry. We do not seek a free ride, only a fair chance.

Our industry stands ready to do its share. In this regard, the AEA opened an office in Japan last year. This AEA office will help our industry in obtaining the appropriate policy context in Japan, and provides specific informational assistance to any U.S. electronics company. The AEA office demonstrates industry's determination. The office is also an example of what can be accomplished when U.S. Government and industry cooperate, since half of the first two year's start-up expenses of this office are funded by the U.S. Department of Commerce. This cooperation has been very helpful in the successful launching of this effort.

Our experience so far has shown that the support of the U.S. Government and its agencies is required to effectively create the environment for U.S. Industry to be welcome in Japan. I must also stress the importance of a coordinated, well prepared and timely strategy by our Government agencies and industry trade associations. To that end, the enactment of market-opening legislation is needed to sustain the pressure so that U.S. manufacturers will not be foreclosed from important parts of the world marketplace. Without passage of this legislation, all the gains in foreign market access achieved this past year could easily be undone in the future.

Legislation now before this committee, specifically H.R. 3131, H.R. 3350, and H.R. 2037, are constructive. We are also encouraged that the Administration is now stepping up its efforts to deal with foreign unfair trade practices, and to gain increased market access for U.S. exporters.

It is impossible for me to judge how these approaches will finally sort out. However, it may be helpful to you as you approach these issues, to know that our industry broadly supports the following concepts. We would hope that these principles will be reflected in any bill that becomes law.

1. Legislation should provide a mandate to the Administration to negotiate the reduction or elimination of barriers to telecommunications trade and should include the authority to negotiate the elimination of any remaining U.S. barriers.

2. Progress towards greater access should be determined by monitoring the results of existing and future trade agreements to assure that all barriers are removed.

3. The U.S. Government should take flexible and credible action to enforce existing agreements and to restore competitive opportunities if negotiations fail to produce significant progress towards a more open market.

Legislation that simply imposes a tariff barrier on foreign imports is not desirable because it is not likely to result in opening up foreign markets. Instead, the likely result would be foreign counter-retailiation. We do not support protectionist legislation.

The Congress has been instrumental in the progress we have achieved to date and I look forward to working with you in the future.

Thank you for your time, and I would be pleased to answer any questions that you might have.

Mr. FLORIO. Mr. McDonnell.

STATEMENT OF JOHN J. McDONNELL

Mr. McDONNELL. Chairman Wirth, Chairman Florio, my name is John McDonnell. I represent the Information and Telecommunications Group of the Electronic Industries Association. We have over 100 members who represent about 90 percent of the U.S.-based manufacturers for telecommunications products in this country.

As you are well aware, our members voted enthusiastically to support your legislation and we have publicly endorsed it from its inception. It has become obvious to me in listening to the members of this committee, you are all painfully aware of the situation which confronts our industry and I won't take any time addressing that particular segment of my testimony.

We have submitted it for the record. However, I would like to spend a few minutes telling you why we like the Wirth-Florio bill. First of all, we like its approach. We think that it represents a firm signal to our trading partners that this Congress is serious about correcting the trade imbalance.

Second, we like the process that you have put in place, the process which you have put in place we think is a fair one which will enable us to determine whether or not we do in fact have substantially equivalent competitive opportunity in the markets which you are addressing.

Third, we like the timing of your bill, assuming it is enacted into law and does become effective on July 1, 1986. We feel that the time tables you have established are fair and equitable and that the process will enable us to determine whether or not fair and competitive opportunities exist.

We also like the fact that it has a non-Japan bias. We feel that Japan needs to be treated the same as any other country and we are delighted that your bill recognizes that fact. I would like to spend a couple of minutes talking about the progress in Japan.

There is no question that over time Japan has been a chronically closed market. A year ago at this time, pending the introduction of the new privatization or liberalization bill in Japan, I made my first visit there to discuss this topic both with MPT and NTT. I can tell you that the picture that they painted for the situation which would exist after April 1st of this year and the one which, in fact, exists today are dramatically different. The picture they painted last October was one of a semiopen market.

What we have achieved as a result of the MOSS negotiations is what I would call technical reciprocity in the wire line area. I think that Phase I of the MOSS negotiations, in which I was privileged to serve as an industry adviser, was very successful in that arena; however, as we have consistently said, our industry only wants to measure results.

We have had paper victories before. I am pleased, along with my colleague, Yong Lee, to be able to announce there are some signs of progress being made in Japan. As recently as 3 weeks ago the new network in Japan, DAINI DENDEN, the second NTT announced the award of switching equipment to one of our members, DSC Corporation, from Dallas, TX.

That will be between $10 and $20 million, and we consider that a substantive step toward something we had never before achieved in our negotiations in trading with Japan. We also understand, in meetings I had with NTT 2 weeks ago, that they are actively considering contracts with two firms who are also members, AT&T and Northern Telcom, Inc., for two different switches.

The AT&T class 5 switch and the Northern Telcom. DMS 10 switch, and we hope that NTT, will see fit to select either/or both of these noncompetitive bids and we will then be supplying switching equipment also to NTT.

However, I think it is only fair to point out that so far the success of the Japanese market has strictly been in the area of wire line telecommunications. I would like to point out that phase II of the MOSS talks, as indicated by Secretary Smart this morning, is now beginning to address the radio wave law and another important segment of our industry, the mobile communications industry.

Unfortunately, like Secretary Smart, I am here to say that the progress has been very limited. I am going back to Japan on October 14 and 15 with the United States negotiating team and I can tell you that the agenda is still primitive compared to the type of agenda that we had for the wire line community.

Our job will not be complete until we have accomplished the same degree of openness for our mobile communications manufacturers that we have achieved for our wire line manufacturers.

I am disturbed at the time tables which have been set up for the conclusion of phase II of the MOSS talks. It is not clear to me that we can accomplish what needs to be done in the mobile radio wave area such as we have accomplished in the wire line area.

Finally, I would like to make a minor technical modification to the bill. It is clear that your intent is to cover both the wire line and the mobile communication sectors of our market, however, the language in your bill is not very clear in that regard and we would like to work with staff in developing language which makes it perfectly clear that you consider this important aspect of our telecommunications market sector as well.

Nobody today has addressed another issue that I think is important in terms of our telecommunications trade deficits and that is the national security implications. We have become increasingly dependent upon overseas suppliers and our open market shows every sign of making this continue.

The effectiveness of our defense posture has become increasingly dependent upon sophisticated communications systems. As portions of our telecommunications equipment industry are eroded, we are developing a growing dependency on foreign sources.

This trend cannot continue without undermining our national security and our ability to respond to a national emergency. Accordingly, this legislation should be a congressional priority.

We are encouraged by the strong bipartisan support which your legislation has generated and the favorable response to the bill by our industry. We appreciate the efforts which your subcommittees have devoted to the unique trade problem and we look forward to working with you to secure the early passage of this legislation.

Finally, something that was not covered at all in my prepared testimony but which I feel I must comment on based on some of the comments from the various committee members is a new flavor that has been introduced into the trade negotiation and that is one of the Bell operating companies being permitted to get into manufacturing and that somehow this represents some kind of panacea for our trade problems.

I am here to tell you that in my opinion nothing is further from the truth. This Government has spent 12 years dismantling one of the world's finest telecommunications industries simply because of vertical integration and the fact that it represented a closed market to many telecommunications manufacturers. I find it hard to believe that you would now consider redressing that problem by creating seven vertically integrated companies especially when as part of our trade policy we are trying to dismantle the one remaining vertically integrated telecommunications monopoly that exists in the world which is Bell Canada, Ld.

So I find it somewhat ludicrous that that type of thing could be introduced and that somehow we would feel that by letting the Bell operating companies get into manufacturing that somehow that would impact the trade balance.

As a matter of fact, to my knowledge, there is not a single product currently being purchased by the Bell operating companies from offshore which is also not available from one of the 500 telecommunications manufacturers in this country and I would hope that the very important job of redressing the trade balance is not distorted by what I consider to be some highly diversionary tactics on the part of the Bell operating companies.

Thank you.

[The prepared statement of Mr. McDonnell follows:]

STATEMENT OF
JOHN J. MCDONNELL
ON BEHALF OF THE
INFORMATION AND TELECOMMUNICATIONS TECHNOLOGIES GROUP

Chairman Wirth and Chairman Florio, I am John J. McDonnell, Group Vice President of the Information and Telecommunications Technology Group (ITG) of the Electronic Industries Association. The ITG represents 100 U.S.-based manufacturers of telecommunications equipment who account for over 90 percent of U.S. production of telecommunications equipment. I am pleased to have this opportunity to appear before you today.

As you know the ITG was one of the first associations to announce its support for the Telecommunications Trade Act of 1985, the legislation which you have jointly introduced in response to the trade crisis which currently confronts the telecommunications equipment industry. Our member companies have overwhelmingly voted to endorse your approach to this problem. I would like to explain why the ITG supports this legislation.

The ITG has always supported a policy of free trade and open markets. Our position on this issue reflects the fact that the U.S. telecommunications producers are highly competitive internationally. We are the acknowledged world leader in telecommunications technology, and measured by key indicia of high technology competitiveness -- level of capital investment and R&D expenditures, innovation and new entry into the field -- our industry has traditionally ranked at or near the top. Significantly, despite the heavy penalty imposed on our products by the overvalued dollar, we have held our own in export markets during the past three years, and in 1984 managed to export over $3.5 billion in equipment in the SIC 3661 and 3662 categories, an increase over 1983 levels.[1]

Unfortunately, as you are aware, most of these exports have been destined to developing countries with no indigenous telecommunications equipment industry of their own to protect. With respect to our major industrialized trading partners, who are also our principal competitors, our ability to sell is restricted by the preferential procurement policies of national telecommunications monopolies (PTTs) and a variety of tariff and non-tariff barriers. At the same time, our own market has been progressively opened through a series of regulatory measures culminating in the breakup of the Bell system at the beginning of 1984. In effect, we have unilaterally given away the principal leverage -- access to our market -- which might have been used to secure an opening of foreign markets.

Your two subcommittees have recognized that the resulting imbalance in competitive opportunities constitutes a threat to the long run viability of the U.S. telecommunications equipment industry, and have shown leadership in devising the comprehensive response embodied in this legislation. This bill is designed to restore to our negotiators the leverage which, in effect, has been given away in a series of regulatory actions which were taken with little or no consideration of their trade impact. Thus, the legislation would not impose blanket restrictions on imports from all countries, but would serve notice on countries which refused to afford equivalent market access to our firms that they will confront the certainty of restrictions on their products, appropriately tailored to respond to the barriers confronted by U.S. producers.

---

[1] National Telecommunications and Information Association.

We believe that this approach is pragmatic -- it addresses the world as it really is, rather than as we would like it to be. It is regrettable that it is necessary to consider the possibility of restrictions, but absent the existence of such leverage, most foreign countries will probably lack motivation to alter a situation which they perceive to be advantageous to themselves.

This legislation recognizes that the telecommunications trade problem is worldwide in scope -- appropriately, it does not single out Japan as a target or a subject of special treatment. Japan has in the past posed a chronic and often seemingly intractable problem for our industry. It still can do more to open its market, and the ITG is working with the U.S. government in negotiating a reduction in regulatory barriers and other impediments to U.S. sales in Japan. Significant progress has been achieved this year, however, and EIA is opening a Tokyo office to assist U.S. companies to take advantage of the market opportunities which we anticipate will be opening up for U.S. companies.

However, a number of our other trading partners maintain telecommunications equipment procurement policies that are at least as restrictive, if not more so, than those of Japan, and have not been willing to make the kinds of commitments undertaken by Japan to enhance U.S. companies' market access. The restrictive policies of these other countries must be addressed.

This legislation also recognizes the time-sensitive nature of the trade problem in this sector. The industry's balance of trade is deteriorating at an alarming rate. In the SIC 3661 and 3662 categories, which offer one measure of our trade performance, we moved from a surplus of $56 million in 1983 to a deficit of $608 million in 1984. Unless action is taken quickly to open additional market opportunities for our firms abroad, this deficit will widen, and segments of this critical industry will begin to erode. The effective date of the legislation, July 1, 1986, coupled with the timetables built into the bill, allows a realistic time frame for negotiations, but provides that in the absence of satisfactory results, corrective action will be taken by a date certain.

I would like to make one important recommendation with respect to the bill. The definition of telecommunications equipment should be modified to include land-mobile communications equipment, such as pagers, two way radio portables and mobiles, and microwave, and to clarify that it embraces equipment such as modems and microwave not used in telephone service. In addition, the definition should clearly exclude all non-telecommunications products. We will be happy to work with you on these points.

The Congressional agenda has become crowded with proposed trade legislation this fall. I would like to emphasize, however, that while Congress must grapple with numerous difficult trade questions, there are few trade issues as important or as fraught with implications for our long run national security as this one. The effectiveness of our defense posture has become increasingly dependent upon sophisticated communications systems. As portions of our telecommunications equipment industry are eroded, we are developing a growing dependency on foreign sources for critical communications components and systems. This trend cannot continue without undermining our national security and our ability to respond to a national emergency. Accordingly, this legislation should be a Congressional priority.

We are encouraged by the strong bipartisan support which the Wirth-Florio legislation has generated, and the favorable response to the bill by our industry and the business community. We appreciate the efforts which your subcommittees have devoted to the unique trade problem which confronts our industry, and we look forward to working with you to secure the early passage of this legislation.

Mr. **Florio**. I thank all three of our witnesses. Let me briefly ask a few questions.

You heard the Secretary this morning say that it was his opinion that $1 billion of the $10 billion anticipated export revenues that would come out of successful MOSS discussion was associated or attributable to telecommunications. Could I ask your opinion on the accuracies of that evaluation? Was it your thought, particularly you, Mr. McDonnell, was it your thought that only $1 billion of the $10 billion export benefits for MOSS would be attributable to telecommunications?

Mr. **McDonnell**. I think you have to be somewhat realistic when you look at the numbers. The telecommunications market in Japan is $4 or $5 million. What penetration can we hope to gain given the entrenched position we face over there?

I think $1 billion, frankly, over a period of years would be a fairly significant penetration of that market.

Obviously, we would like more, but in terms of the size of the telecommunications market, I might point out each of the Bell operating markets is larger than that market—even unto themselves—I think it is unrealistic to try to guess we can get more than a billion dollars.

I would be quite happy with that.

Mr. **Florio**. Could I ask if any of the witnesses, particularly Mr. McDonnell, have any explanation as to why there seems to have been some success in the wire line negotiations but apparently you are apprehensive about the same degree of success in the mobile radio wave communications discussions.

Mr. **McDonnell**. As far as I am concerned, I agree with Secretary Smart and that is the primary reason why the Japanese became flexible in the negotiations because Congress had turned its attention to this very serious problem and even though I thought the negotiating team was excellent, I feel that they were given an unbelievable assist by the attention that Congress is paying to this topic.

Mr. **Florio**. Let me ask if the other two witnesses have had any different thoughts as to the value of legislative initiative such as this in inducing not only the negotiations to come to a satisfactory conclusion, but also the implementation of what it is that is negotiated toward the end result, whether that would be furthered by the enactment of legislation comparable to what we are talking about?

Mr. **Lee**. I think that there is absolutely no question that that is a downright yes, without qualification.

Mr. **Florio**. Well, the Trade Representative said he was a bit apprehensive and I think he almost went as far as to say he was opposed to the idea of finite timeframes within which, after negotiations, action would be taken in the event a determination was made there was not reciprocity of market access.

Wouldn't that take away the certainty that I think the legislation carries with it to induce compliance?

Can I ask what your thoughts on what would the effect be if we were to make modifications to satisfy what appears to be the major objection of the administration to this legislation, the objection being there is no discretion on the part of the President as to whether to apply sanctions or retaliatory actions in the event that a determination is made that markets are closed?

Mr. McDonnell. If I might answer, Chairman Florio, as far as I am concerned it would totally emasculate the law. The President has given ample indications as to how he uses his discretion. I realize that is the primary objection that the administration has to your legislation, as well as other legislation that has been introduced on the other side, but as a matter of fact, it is probably the one single thing that we like most about your legislation, because in the absence of mandatory requirements, the President has not taken the authority he already has and which you have given him as recently as last October in the Trade Act.

So we feel that the administration has amply demonstrated what has been said over and over again today and that is, they don't have a trade policy overall. They certainly don't have one as regards our industry.

Mr. Florio. Let me just ask one last question.

Mr. Hinds, AT&T has recently announced cutbacks affecting 40,000 of its employees. Is there any way that it can be determined what percentage, if any, those job losses can be attributable to increased foreign competition in the domestic U.S market?

Mr. Hinds. I believe the correct figure is 24,000, but those layoffs are entirely in a segment of the company known as AT&T Information Systems, which is basically a domestic operation. I would say very little, if any, of those cutbacks can be directly ascribed to trade issues.

Mr. Florio. When you say domestic operation, what aspect of domestic operation?

Mr. Hinds. This is the sale and provision of equipment to businesses and residences as opposed to the supply of equipment to PTT's or Regional Bell Operating Companies, for example.

Mr. Florio. Thank you very much.

I yield to the gentleman from Colorado.

Mr. Wirth. Thank you very much, Mr. Chairman.

Is there any interest in the telecommunications industry that parallels interest in other industries to close the U.S. market? Do you know, Mr. McDonnell?

Mr. McDonnell. Our association has consistently opposed any restrictive legislation that has come before this Congress. We feel we have the wherewithall to compete and we are not seeking restrictive legislation or protective legislation.

Mr. Wirth. Mr. Lee.

Mr. Lee. I share Mr. McDonnell's view on that. We are not interested in protectionist legislation.

Mr. Wirth. Mr. Hinds.

Mr. Hinds. We fully agree with the intent of the bill and that is to open access to markets, and we are opposed to any actions that would erect barriers in the U.S. market.

Mr. Wirth. Mr. Chairman, I just want to make sure for the record that everybody understands that all of the industries involved, telecommunications and electronics areas, are not trying to close the U.S. market to foreign imports. We just heard that clearly on the record. That discussion has been had over and over and over again, including the confusion of this particular legislation, and this approach compared with other approaches.

I just wanted to be sure we had our three witnesses representing three very broad entities in this country, of very great importance to our economy on the record on that.

I thank you all for that clear and unequivocal statement.

Let me ask a second, more difficult question I think. If AT&T's trade problems, Mr. Hinds, of getting into foreign markets is a measurement of 10, of that 10, how much of that are a result of trade barriers, and how much are the result of the value of the dollar?

Mr. Hinds. That is a very difficult question.

I would say it probably approaches 50-50. The value of the dollar has been a terribly debilitating problem for us. I would point out that it is not just the question of us competing, for example, against the Japanese in the Japanese market. It is a question of us competing against the Japanese in the third-country market such as China or Singapore or some other third country.

Mr. Florio. Will the gentleman yield?

Mr. Wirth. Be happy to.

Mr. Florio. On that point, and relative to my question with respect to employment, the 40,000 number I used was the 24,000 that you have talked about prospectively laying off as well as the 20,000 apparently that had been lost.

Your response was the domestic market was the place where the job losses were occurring. With the value of the dollar acting both ways, as a subsidy for imports and as a tax for exports, would it be fair to say that a percentage of those 40,000 people who have lost or will lose their jobs would be a direct result of the effects of the overvalued dollar on the domestic U.S. market?

Mr. Hinds. I think it would be incorrect for me to say that the strong dollar had no influence whatsoever in that. But I think it is a second or third order impact. These changes are very complex, they are coming about as a result of the fact that we are in a bitterly aggressive, competitive market, and that requires everybody in the marketplace to get their costs down.

We have had excessive costs and we have had to get costs out of the business.

I would also point out that it is also requiring technological changes. We are moving from an old-type switching and PBX technology to electronic systems that require less in the way of service and maintenance activity, as well as production costs going down.

But it is a complicated issue and I am sure that foreign competition has had some influence, and I am sure the strength of the dollar has had some influence, but there are many other factors operative.

Mr. Florio. I appreciate the gentleman yielding on that point, but let me just say, much of the impetus for some of this legislation to provide our productive, competitive industries—namely your own—is premised upon the economic dislocation that has occurred, particularly to workers. If what you are saying to us is, well, in order to become more competitive, even if we didn't have the dollar problem, even if we had access to other overseas markets, will ultimately result in the need for us to reduce costs, that translates into substantial—and I think we have to acknowledge the fact that 40,000 employees are substantial—numbers of people, are still going to lose their jobs—that is an interesting insight for you to share with us.

Is that what you are saying?

Mr. HINDS. To some degree, yes.

Mr. FLORIO. Thank you.

I would ask unanimous consent that the gentleman from Colorado have an additional minute. Without objection, so ordered.

Mr. WIRTH. Mr. Lee and Mr. McDonnell, you heard my question to Mr. Hinds on the relative balances. He was suggesting 50–50 and it has all kinds of ramifications.

The purpose of the question is to clearly illustrate the fact that a piece of trade legislation by itself doesn't do the job. Do you want to give us a figure?

Mr. LEE. Let me give you an example recently. In a country we are bidding a contract against a Japanese equipment supplier and financing was a critical part of the deal.

We initially offered them a yen loan because we felt we had to be competitive against the Japanese. What was interesting in that time period from about six months ago, there was a general feeling the U.S. dollar was overvalued and something would have to be done and the customer turned around and said, we prefer a dollar-denominated loan; on top of that we prefer your equipment even though you might be a little high.

Given the way the exchange rate is moving, we think we are going to go with you. It is not only what the question is of the customer perception into the future.

Mr. WIRTH. Mr. McDonnell.

Mr. MCDONNELL. Let me tell you where the dollar may be a problem and where it is not.

It is a definite problem at the low end of the scale. It is a well-known fact that our consumer electronics industry has gone offshore. Especially with the move of AT&T from Shreveport, LA, to Singapore, that the low end of the market is going in that direction. I attribute that movement to the value of the dollar.

As we move to the higher spectrum, digital switching systems, microwave system and so forth, there the dollar has far less impact. I refer back to my written testimony where in spite of the overvalued dollar we have held our own in export markets in the past 3 years, and in 1984 managed to export over $3.5 billion, an increase over 1983 levels.

So overall I would have to say that certainly the dollar has an impact, but to me it is much more of a secondary impact. To me the real impact in retarding growth and causing trade imbalances are the closed markets.

Mr. WIRTH. Gentlemen, I thank all of you very much for your forthcoming, blunt and honest statements. It was a refreshing panel and we appreciate it.

Thank you, Mr. Chairman.

Mr. FLORIO. The gentleman from New York, Mr. Lent.

Mr. LENT. Thank you, Mr. Chairman.

Mr. Hinds, you mentioned that Canadian Prime Minister Mulroney recently announced his intention to enter into bilateral discussions with the United States in an effort to establish or agree to a free trade treaty. What effects do you believe H.R. 3131, passage of it, might have on such negotiations?

Mr. HINDS. It is difficult to tell. I think the entire level of activity in the Congress, including H.R. 3131, expressing their concern on trade, is a major factor in the Canadian decision to engage in such discussions, I think——

Mr. LENT. So it doesn't hurt.

Mr. HINDS. Certainly doesn't hurt. I would say that if it is passed that the overhanging remedies in the bill would be very supportive of moving those talks forward.

Mr. LENT. I am pleased to hear you say that.

Also, on page 6 you say that products have to be coupled with a commitment by the corporation to investigate their resources required to demonstrate this commitment to the international customer.

Can you just tell us, with a couple examples what AT&T International has been doing to promote their products abroad?

Mr. HINDS. Well——

Mr. LENT. In Japan, in the EEC, in Canada, et cetera.

Mr. HINDS. Five years ago AT&T International did not exist of course, and today it is a significant element of AT&T. Two years ago we had no presence in Canada to speak of. Today we have offices across Canada. We have hired and trained an extensive Canadian sales force and have taken similar steps in Japan.

Mr. LENT. And the results?

Mr. HINDS. In addition to the in-country activities, particularly in the case of Japan, not so much in Canada, there is extensive product development and engineering required to adapt the products to the unique requirements of those markets.

That kind of commitment is expensive and it is clearly a commitment on our part to participate in that market.

Mr. LENT. Mr. Lee, I have just one question.

In your testimony you focus on M/A-COM's experience with the Japanese telecommunications market. Can you tell us if any, which other foreign markets M/A-COM has attempted to sell its products in and what your experience has been in those countries?

Mr. LEE. I would say that we have a good base of business in Great Britain particularly. We sell our communications equipment all over the world and in general, they are generally accepted international technical specifications.

In the case of Japan going back to that country, it is not the case across the board. So our experience has been, if you will, to date rather good, but we have yet to go into every marketplace with a product that is not entirely designed to an international standard.

Mr. LENT. Mr. McDonnell, in your testimony you recommend we make a small adjustment or amendment in this bill that the definition of telecommunications equipment be modified to include land-mobile communications. I don't know whether you mentioned why you think the bill ought to be modified in that respect, and maybe you could tell us what you think the potential is for U.S. export of land-mobile communications equipment.

Mr. MCDONNELL. In your definitions section in paragraph A, definition seems to imply you are talking about wire line telecom equipment. If you read section B where you talk about FCC registrations you reference part 2 and part 15 which very definitely address this mobile communications market.

So we recognize that it does cover the mobile communications market, but that is to those of us in the industry who are familiar with FCC parts 2 and 15.

Your definitional phase which is more in English certainly seems to imply that it is aimed at the wire line telecom market.

Now, what difference would that make in the balance of trade? Even though telecommunications equipment and the wire line side has most of the publicity, the fact of the matter is the mobile communications sector in most countries is even more closed.

Mr. LENT. You think there is a large potential?

Mr. MCDONNELL. There is a very significant potential in the wireless communications area.

Mr. LENT. Do the same trade barriers we have been discussing vis-a-vis other products seem to apply with respect to land-mobile communications equipment?

Mr. MCDONNELL. Absolutely. In some countries, for example, there is only one purchaser of public mobile communications equipment, again, today, in the case of Japan, that is true. NTT is the only authorized provider of public wireless telephone communications. Therefore they are the sole purchaser of that type of equipment.

As of right now, they have no competitors and even though under the new law that went into effect, new competitors may be authorized, they have not yet been authorized, and that is of course why in phase II, we are trying to negotiate the radiowave law in phase II.

So that is just one of the examples which I am familiar with. As you go around the world, you will find that the mobile communications market in the public area is even more restricted than the telecom market. At least many countries do have the equivalent of the FCC interconnect policy. Even France and Germany, as restrictive as they are, at least on paper, have an interconnect market. You will find that it is very difficult to get your products approved and that is what we are trying to address in the new negotiations.

But in the area of mobile communications, it is totally domestic vendors.

Mr. LENT. Thank you.

Mr. FLORIO. The gentleman from Texas.

Mr. BRYANT. Thank you, Mr. Chairman.

Mr. Chairman, most of the points I hoped to have been made have been made. I would like to join Mr. Wirth in thanking you for being so forthright with us, and I will yield the balance of my time.

Mr. FLORIO. The gentleman from Pennsylvania is recognized for 5 minutes.

Mr. RITTER. Thank you, Mr. Chairman.

I have a question about the current negotiations between our Government and the Japanese Government over the NTT access situation. So far I know that many of our companies are trying to sell equipment right now even though the negotiations are not completed.

How are American products being accepted given the ongoing negotiations and how does that relate to this legislation before us?

Mr. Hinds, do you want to start off because I know AT&T is fairly active in Japan at this time trying to sell digital switches.

Mr. **Hinds**. Yes; we certainly are. We have had some success selling to NTT over the past 2 years. We sold echo cancelers to them and last year sold a network management system to the tune of about $75 million. But these sales are, we hope, just the beginning and in fact, the digital switching discussions or negotiations are very active at this time, and we are extremely hopeful of favorable outcome within the next few months.

Mr. **Ritter**. Do the NTT negotiations that are going on have a salutory effect on your own conduct of business there? Does this legislation before this committee have a salutory impact on your doing business now?

Mr. **Hinds**. There is absolutely no question that the actions of this committee, the MOSS talks, the actions of the trade representative's office, all have combined to create the opportunity. I believe left to their own devices it would have been much less likely that we would be at this stage.

Mr. **Ritter**. Mr. Lee, do you want to comment?

Mr. **Lee**. Yes, Mr. Ritter. I would also say that I know firsthand that two very large Japanese equipment manufacturers have set up dedicated offices in New York City, principally to import U.S. equipment and I think we have not touched on that. We talked about U.S. manufacturers investing in the Japanese market and trying to market there. I would say this pending legislation is encouraging many Japanese companies to actually take a more active view and import equipment.

Mr. **Ritter**. Mr. McDonnell.

Mr. **McDonnell**. I would like to amplify it a little because I don't think it has been brought out well enough. The opening of the Japanese market has not just been for U.S. manufacturers. The NTT family of suppliers were preferred even to other Japanese suppliers.

Now all of a sudden, Japanese companies who have historically not been in the telecommunications market, like Mitsubishi, for example, which have been in mobile radio but not into wire line, are becoming interested in telecommunications supply and the fastest way to get into the business is to find United States products that are not currently being marketed there and put together a complete line of equipment that can compete with the others.

So there have been second-order effects that have not been completely visible because they have not materialized yet in contracts. I am optimistic, as mentioned by Mr. Lee, we opened a Tokyo office to help United States companies who go over there to open a business in Japan.

Mr. **Ritter**. You are going to congratulate the STR and this subcommittee and this full committee for its work in opening up Japanese markets.

Mr. **McDonnell**. And there is no question the same will happen in mobile communications. NEC can sell pagers in this country which it cannot sell in Japan. If we do for the radio law what we did for telecom, they will be in a position to sell those innovative products.

Mr. Ritter. So you are saying we are on the right track here.

Mr. McDonnell. Right. I think you would even get a lot of Japanese companies to agree with you.

Mr. Ritter. Interesting.

Mr. Lee, you talked about the radios that your company is trying to sell, microwave radios to Japan. You talked about the question of standards and that meeting Japanese standards seems to be more difficult than meeting standards elsewhere.

Is that true?

Mr. Lee. In our particular case, that certainly was the case. And our experience in other parts of the world, and as I mentioned we sold this equipment to more than 10 countries, that was not an issue.

Mr. Ritter. Why are the Japanese standards so different?

Mr. Lee. They would say that Japan, given its mountainous terrain, may have certain requirements that are specific. Of course Switzerland looks very much like Japan, too, so it is pretty obvious that that is not really the basis on which to work.

Mr. Ritter. Is the question of standards under discussion between our trade negotiators and theirs at this point? Obviously we face the question of standards not only in this industry but in others.

Mr. Lee. Certainly the radiowave law negotiations will address that head on. I should add again a further supporting comment on Jack McDonnell's point about the side benefits of all that work going on now, many end users in Japan actually welcome standardization between the United States and Japan, because they would like to have it in the United States and they cannot because the standards are such they cannot use the equipment.

Mr. Florio. The time of the gentleman has expired. The gentleman from Massachusetts.

Mr. Markey. Thank you, Mr. Chairman.

Mr. Lee, welcome, M/A-COM has long been a leader in microwave and digital technologies, not only in the Commonwealth of Massachusetts but worldwide. You are one of the two or three largest employers in my district, and I would just like to pursue with you a couple of lines of inquiry and perhaps help enlighten the committee.

I noted your description of progress in the country of Japan over the past few months, due in part to pressure of legislative initiatives in Congress. I also note you are wary that if this pressure lets up, there is a very strong likelihood that Japan will respond by returning to its business as usual ways which prevailed just a year ago when technical specifications were used to keep your microwave equipment out of Japan.

Some of the bills before Congress, including my own attempt to minimize this problem by providing a very short 30-day trigger for action whenever hard won agreements are subsequently violated.

As a businessman would you welcome that kind of support and reinforcement for your negotiating position?

Mr. Lee. I would say we certainly understand the necessity for feedback, that any trade legislation in this particular situation ought to have teeth. We must be taken seriously. It needs to have teeth.

Mr. Markey. What do you feel about a 30-day trigger?

Mr. Lee. I am afraid I am not an expert on that particular part of it and I will not make any comment, whether 30 or 60 days is appropriate.

But certainly there ought to be a very real feedback route set up.

Mr. Markey. Do you have any comment, Mr. Hinds?

Mr. Hinds. I am inclined to agree. I am not certain whether 30 days is precisely the right time. It takes some time to understand these things and perhaps a little longer time might make sense.

Mr. Markey. Mr. Lee, what are some of the barriers to U.S. telecommunications equipment manufacturers that you have learned about in Japan?

Mr. Lee. I think going back to an earlier theme brought out, language is definitely an obvious and extremely significant barrier. The burden rests as much on our shoulders. We all understand the Japanese sometimes speak English perfectly well. We had our proposal translated to the Japanese language and our documents translated to Japanese, and we hired an interpreter for some of our meetings.

Dealing with the Japanese Government is difficult because many of their policies and procedures are rather informal and not done in one place. In addition, I sense that the Japanese Government is subject to particular pressures that can be brought to bear by large Japanese manufacturers if it starts to appear that the Government is too friendly to United States manufacturers.

Finally, sort of an aside story if you will, I learned that there are also substantial differences within the Japanese Government administration just as there are within the United States Government. One issue now underway between the Ministry of Posts and Telecommunications and the Ministry of Construction. which controls highway rights-of-way and telephone and electric poles is concerning the growth of cable television in Japan.

The Ministry of Construction is balking at permitting construction of new CATV systems. Now where is the American interest in this? Well, this situation will have a negative impact on new satellite systems that Japanese companies are buying from U.S. manufacturers, since the CATV networks will be a potentially large user of the system.

So these are some of the things that are going on within the Japanese administration that we are not cognizant of unless one really does invest a lot of time in discovering them.

Mr. Markey. I would tend to agree with you that language is a serious barrier. Back in early 1983 I had a conference up at the Marriott at Route 128, about two dozen NTT engineers and executives had come to our country and I set up a conference at room 128 telecommunications engineers and executives could conference with them. I set up a system of booths so people could put on headphones to hear the translation.

Of course the Americans were fed up with the Japanese discriminatory policies that would not allow United States entry into their market, while 20 percent of our market was open to them. The interesting thing about the process was that none of the Japanese people wore their headphones and all the Americans had to wear their headphones in order to understand what the Japanese were saying.

So without question, language is a barrier. But it should not be, even in admitting that, forgotten that the structural setup of the Japanese culture, Government and private sector, is a major impediment even to those companies in our country that take the effort to learn the tastes and preferences of the Japanese and try their best to learn the language and to sell their products.

So I am glad that you were able to bring your testimony to the committee and I am sure we are going to try to incorporate it into the final legislation.

Thank you, Mr. Chairman.

Mr. FLORIO. The time of the gentleman has expired.

Let me express the appreciation of both subcommittees for your participation today and thank you very much for your testimony.

Thank you.

We are now pleased to move to our last panel. We would ask Mr. Edwin B. Spievack, president of North American Telecommunications Association; Barbara Easterling, executive vice president of Communications Workers of America; Robert B. Wood, research director for International Brotherhood of Electrical Workers; Stanton D. Anderson, Esq., Anderson, Hibey, Nauheim & Blair; and William O'Connor, president of Executone, Inc.

We welcome all of our witnesses on this panel to our committee. We appreciate their patience in the course of the morning.

All of your statements will be incorporated into the record in their entirety, and we would ask the witnesses to proceed in a summary fashion, summarizing their statements.

Mr. Spievack.

STATEMENTS OF EDWIN B. SPIEVACK, PRESIDENT, NORTH AMERICAN TELECOMMUNICATIONS ASSOCIATION; BARBARA J. EASTERLING, EXECUTIVE VICE PRESIDENT, COMMUNICATIONS WORKERS OF AMERICA; ROBERT B. WOOD, DIRECTOR, RESEARCH AND EDUCATION DEPARTMENT, INTERNATIONAL BROTHERHOOD OF ELECTRICAL WORKERS; STANTON D. ANDERSON, ON BEHALF OF COMMUNICATIONS INDUSTRY ASSOCIATION OF JAPAN; AND WILLIAM Y. O'CONNOR, PRESIDENT, EXECUTONE, INC.

Mr. SPIEVACK. Thank you, Mr. Chairman, and thank you on behalf of the North American Telecommunications Association. We appreciate this opportunity to address the subcommittee this morning.

Members of the North American Telecommunications Association certainly do not oppose and could not oppose a notion of telecommunications access on a fair-based, equivalent basis to that provided in the United States. We have some difficulties with this legislation in several sectors.

As Mr. Hinds indicated, we do think there ought to be some little period of time provided in this legislation for negotiation by the President before the triggering mechanism is pulled.

Second, we are concerned about those provisions of the legislation in terms of market access that deal with the provision of joint ventures and the ability to establish manufacturing facilities in foreign countries as a basis for determining whether there is telecommunications access. There is no country in which we are aware that prohibits that. Of course, if that is a means of getting out of other fair trading arrangements which promote exports which are, by the way, essential to the trade deficit problem, that simply would defeat the effectiveness of legislation in terms of market access, as we understand it.

Overall, we do not support the notion of this legislation, we must say, because we feel very, very strongly, as Congressman Slattery stated this morning, that it doesn't really deal with the basic problem which is the trade deficit. In those areas, we have made a number of recommendations, and amendments have been presented to the staff. They deal with the currency problem.

We feel that it is vitally essential that the Government of this country provide some neutrality of currency to trade and that is possible to do despite the problems with the budget deficit.

Second, a problem which no one in this hearing this morning has mentioned is the whole question of Department of Defense restriction on export licenses. It is critically affecting many of our members in circumstances where comparable products are available from foreign nations. We are simply losing the ability to compete in foreign markets because you cannot get an export license out of Department of Commerce.

That seems to be a serious impediment to export trade being created by this country.

Three, we feel strongly that in the area of anticompetitive practice and dumping, legislation is needed to amend the laws to give American manufacturers the presumption of truth on their complaints as so many foreign countries do, in the area of dumping and anticompetitive practice. American manufacturers are placed at an extreme disability in terms of proceeding with dumping and anticompetitive cases on their own initiative. The presumption is against them, the burden of going forward with proof is on them, and frequently when they cannot get information they are unable to prove their cases.

We feel it ought to be incumbent on the foreign manufacturer or foreign country to come forward with burden of proof to disprove the allegations of a complaint in a dumping procedure.

Furthermore, we feel strongly that as is provided under the securities industry legislation, there ought to be some authority created in the legislation that gives private trade associations and groups to attempt to negotiate the balancing problems between foreign industries and U.S. manufacturers before triggering mechanisms are imposed.

And that form of amendment has been provided to the staff and we can provide extra copies if you would wish.

We feel even if legislation like this were to pass, it will not, it will have some impact in terms of dealing with those most critical areas of the denial of access, particularly those critical areas now that exist in Canada and Western Europe which are much more severe than in Japan today, and Japan is as we have heard, and as largely is true, has reduced most of its restrictions and I am informed there are hopeful signs that the radio restrictions will be substantially revised or eliminated in the next round of MOSS negotiations.

So we think that Canada and Western Europe are the places to look. There we are not dealing with $4.2 billion markets such as in Japan, but a $35 billion market in Western Europe from which the United States manufacturers are substantially precluded.

We think that until Congress deals with those issues, we simply are not going to redress the trade deficit problem. We will get more fairness, we will get restriction and relaxation of tariffs and nontariff barriers, but we will not come around to the position where we enjoy a surplus of trade as we did in the past in the telecommunications industry.

So we think this administration must start putting much more tremendous efforts on negotiations in Western Europe where the preclusion is overwhelming and the efforts of U.S. manufacturers to get in are fairly difficult.

There is also the problem as was indicated by Mr. McDonnell, we do not have great difficulty, even at the higher dollar value, in trading in our highest technology products. That is where you run into Department of Defense restrictions and wait anywhere from 8 to 24 months or forever in terms of getting export products out of the United States.

But countries will pay the higher dollar value for high-technology products, but in the area of lower technology, if you will, those are areas in which the dollar is having an enormous impact and it counts for an awful lot of trade we are losing.

If it is said we have to keep interest rates high simply to keep foreign funds coming into the United States to fund the debt because Congress is unable to reduce the deficit, then I think there is another kind of check and that is to get the Federal Reserve to reduce the interest rates and then Congress will sure as the devil have to reduce the deficit.

That means some changes in administration policy in terms, obviously, of the military expenditures, because everything else is cut to the bone.

We feel that these U.S. barriers to trade are the significant ones with the exception of Western Europe and Canada.

We feel that the American manufacturers have to learn a great deal because you cannot just be an order-taker in foreign markets for medium- and high-technology products. You have to establish distribution, sales, and technical support in those countries, otherwise those products are not going to move.

American manufacturers, for a variety of reasons, have not done that as yet in Japan, but that market is now open for them to do it and NTT is not the sole buyer in Japan any longer. American manufacturers can go directly to the end user, the business customer and residential customer. As Mr. McDonnell indicated, again we are not talking a great big market in Japan. It is surprising that in the second largest market of the world, you only have $4.2 billion in telecommunications, whereas in the United States we expend something like $60 billion a year.

So if we achieved enormous penetration in Japan, we would have the effect of entirely displacing United States or Japanese manufacturers in Japan and that is why it is reasonable to assume if the MOSS talks are successful in bringing us $1 billion in export business, that is going to be a very, very successful achievement.

But the target, the place for us to look is Western Europe and Canada. Those are simply the larger size markets and those are the markets in which the restrictions need to begin to come down and come down very, very rapidly.

Thank you, Mr. Chairman.

[The prepared statement of Mr. Spievack follows:]

TESTIMONY OF

EDWIN B. SPIEVACK
PRESIDENT
NORTH AMERICAN TELECOMMUNICATIONS ASSOCIATION

My name is Edwin B. Spievack. I am President of the North American Telecommunications Association (NATA), the trade association of the telecommunications equipment industry. NATA today represents about 650 independent manufacturers, suppliers and distributors of state-of-the-art telecommunications equipment, such as Private Branch Exchanges (PBXs) and key systems. Our members are both domestic and foreign-owned companies. On behalf of NATA's worldwide membership, I appreciate the opportunity to testify on H.R. 3131, the Telecommunications Trade Act of 1985.

Mr. Chairman, we respect the objectives of this subcommittee as reflected in H.R. 3131. As Americans we would be the last to minimize the trade deficits this country is suffering with Japan and the industrialized nations of the world. While we appreciate the economics of comparative advantage and the extent to which trading nations can run deficits and surpluses in trade because of those inevitable economic conditions, we recognize that where trade is not free -- where barriers to trade are created by the mercantile policies of foreign nations -- the laws of comparative advantage no longer apply. Certainly this is the circumstance in which the United States now finds itself with Canada and the European Economic Community insofar as telecommunications trade in equipment and services is concerned.

This is not the situation with Japan. While it is undeniably true that barriers to trade with Japan in telecommunications services and products have existed, to the best of our knowledge those barriers have been substantially removed. Other problems we will discuss have taken their place. But no significant barriers exist.

There are, however, natural limitations to trade with Japan. We see Japan as the second largest consumer market in the world; and, as an economic matter, that is true. But, as a practical matter, it is not an accurate assessment of the telecommunications market -- or its potential -- in Japan. The current annual expenditure on telecommunications products and services in Japan amounts to 4.2 billion dollars. That expenditure level is insufficient to carry the production capacity of Japanese manufacturing -- and certainly would be totally inadequate to absorb the production capacity of either Japanese or American manufacturers.

No adequate studies exist from which to determine the potential of the Japanese market, or its capacity for growth under the spur of aggressive competition.

We assume, perhaps wrongly, that in a market of 125 million people, the Japanese have some potential for growth greater than is now realized. But we doubt that the potential approaches anything close to the size of the 60 billion dollars the U.S. spends annually for telecommunications products and services. It must be remembered that the Japanese people are locked into a small territorial island and live under extremely crowded conditions. Despite a population approximately one half that of the U.S., their purchases of telecommunications products and services run at a rate 15 times less than ours.

We do know, however, that negotiations by the Reagan Administration with the Japanese have resulted in substantially eliminating the traditional barriers to trade which Americans have railed against. Thus, we must seek out the other problems which interfere with America's ability to trade in Japan; primarily we find that they are problems of our own creation -- problems with which H.R. 3131 does not deal.

While the Congress of the United States is rightfully concerned about the need to maintain American advantages in high technology -- advantages which hold promises for American business and employment -- those advantages will simply not be sustained under existing policies of the United States Government.

First, Americans cannot compete in world markets fighting against an inflated dollar which destroys U.S. productivity and competitive pricing of our products in foreign markets. Until Congress writes laws that force the Administration, the

Treasury Department and the Federal Reserve Board to maintain the neutrality of the dollar to trade, U.S. products will not compete, will not sell, and will not export abroad.

Secondly, American high-technology industry cannot compete in the trading of high-tech products when the U.S. Department of Defense persistently refuses to allow the U.S. Department of Commerce to issue export licenses for those products.

Until the Congress enacts laws that liberally allow the export of products now restricted by the Department of Defense, where comparable products of foreign manufacture are available as substitutes, we will not compete, sell or export. The Japanese do not create these problems for us. We create them for ourselves.

Furthermore, Mr. Chairman, there are two other critical points.

First, we complain about the anticompetitive practices and dumping of foreign nations, saying that those practices affect the domestic market of American manufacturers. That problem is easily resolved. U.S. domestic laws must be amended to give American manufacturing complainants the benefit of a presumption of truth on their complaints. As in the case of the laws of other nations, foreign manufacturers and countries must shoulder the burden of disproof to the satisfaction of judges, and absent that proof they should be subjected to the retaliatory actions of the United States. Regrettably, we currently treat our own manufacturers as aliens, making it impossible for them to prove cases of dumping and anticompetitive practice.

The second point is that upon an examination of H.R. 3131 we find it sets up as one method of determining equivalent telecommunications market access, whether Japan or any nation prevents American businesses from entering into joint ventures and establishing manufacturing facilities on foreign shores. We know of no nation that conducts such policies of exclusion. Why should they when the establishment of a U.S. facility on a foreign shore creates foreign wealth and employment? It must be understood that American manufacturing offshore deprives the United States of tax revenues, employment and the accumulation of wealth. The activity does nothing to offset trading imbalances. In the present circumstances, it stimulates trade deficits.

Mr. Chairman, we believe that the answers to the problems in telecommunications trade are deeply routed in this nation's overall international trade policies. Regrettably, many of the legislative trade solutions to date seek quick sectoral relief that will, in all likelihood, be frustrated by the deeper and broader questions that must inevitably be addressed. Sooner or later we will recognize that more comprehensive, realistic and rational approaches are in order. To move otherwise will not only fall short in changing the bottom line numbers of the trade imbalance, but risk the onset of a trade war that bodes ill for the global economy as well as our own.

We are encouraged by recent developments that demonstrate the beginnings of a wiser and more positive approach. The Administration, thanks to pressure from Congress, finally appears to be moving more aggressively to adopt a more forceful trade policy. The President's recent speech outlining measures to combat the trade practices of foreign nations may help cool tempers and rhetoric that have threatened to ramrod legislation that we all may later come to regret. And the recent agreement by the U.S. and its major trading partners to bring the value of the dollar down from the stratosphere may go a long way toward making the dollar -- and the "made in the USA" label -- more competitive in the world market. But it won't happen overnight.

We sincerely respect what this subcommittee is trying to accomplish, but the independent equipment industry cannot support it. In its present form H.R. 3131 does not embrace the larger questions at the heart of the telecommunications trade deficit, nor the realities of Japan's inability to offset the problem in any truly significant way.

H.R. 3131 could be strengthened by embracing a number of principles, several of which I mentioned earlier. We respectfully propose that this committee consider four specific principles that may help cure the patient without killing him in the process. They are as follows:

1. Foreign Exchange Intervention

This principle addresses two related concerns: (a) that the U.S. Treasury should intervene in foreign currency markets to maintain the neutrality of currency to trade, and (b) that the Federal Reserve should lower interest rates to equivalent rates of interest in foreign nations whenever there appears to be a surge of foreign dollar purchases for the purpose of moving into U.S. investments and savings bond deposits, or the buying of high-interest-yield treasury bills, notes and bonds. An amendment along this line would reinforce and strengthen the recent moves by The White House.

2. High-Technology Export Restrictions

This principle is intended to circumscribe the power of the Defense Department to unnecessarily prevent the export of high-technology products by requiring that export licenses be issued on a finding that like or equivalent foreign products are the subject of international trading by other nations.

3. **Industrial Association Trade Agreement Authority**

This principle is intended to enable domestic industrial associations to enter into negotiations with industry associations overseas, and to prevent the President from imposing restrictive trading requirements in the U.S., except on a showing that such bilateral industrial association negotiations and agreements have demonstrably failed to achieve results.

4. **Antidumping Law Changes**

This principle is intended to revise two longstanding U.S. antidumping laws (commonly referred to as the Antidumping Act of 1921 and the Antidumping Act of 1916) in order to make those laws a more viable means for U.S. industry to seek relief from injury and redress for damages caused by the dumping of foreign goods in U.S. markets. Changes should achieve those ends by harmonizing to a degree the two principal antidumping laws and establishing a burden of proof that helps cure their major failing: impossibility of enforcement.

Mr. Chairman, if H.R. 3131 was amended to include these kinds of principles we believe that this committee will have marked off new and important ground in the effort to redress the imbalance of trade in telecommunications for the long pull. We would be pleased to work with you and this committee to that end.

Thank you, Mr. Chairman, for this opportunity to express the views of the independent telecommunications industry on H.R. 3131 and the important issues it attempts to reconcile.

Mr. **Florio**. Thank you very much. Ms. Easterling.

STATEMENT OF BARBARA J. EASTERLING

Ms. **Easterling**. Thank you very much for the opportunity to comment on the several trade bills aimed at improving the position of the U.S. telecommunications equipment manufacturers in the face of trade deficits and many foreign practices, which are unacceptable if one wants to render more than lip service to free trade. We are encouraged by these bills.

We have three major areas of concern in H.R. 3131. First, the bill can be interpreted as allowing foreign subsidiaries of U.S. companies to manufacture goods offshore and bring the goods into the U.S. or sell in third markets. Such goods from these "U.S. suppliers," as defined in your bill would be considered American made.

Our second concern is the very extended timespan built into the process. The legislation would take effect on July 1, 1986, yet companies and unions harmed by imports would be prohibited from filing complaints before July 1987. Then with the numerous steps in the process, any kind of final action could not occur before the second quarter of 1988. By that time action may be too late.

Our third concern with H.R. 3131 is the need for certainty of action by the Secretary of Commerce and the President. Our reading of this bill shows the President can use discretion to conclude that no action need be taken except to notify the Congress and publish a notice in the Federal Register. We hope the subcommittees will strengthen the bill and remove those areas in which ambiguity can creep in. We want to be able to support your efforts.

Let me address the two other bills, H.R. 3350 is similar to S. 942 which is now pending before the Senate. We are supporting S 942, which received several strengthening amendments in committee markup. Representative Markey's bill, H.R. 3350, has similar aims to H.R. 3131, the bills are reasonably consonant.

We are very concerned about legislation to cover telecommunications trade, since you raised the issue this morning. We are in fact losing jobs in the business, 24,000 jobs through layoffs, and that is by early next year.

These followed about 9,000 last year.

Telecommunications imports were 7 percent in 1979 but have risen to 21 percent. AT&T has closed a plant in Louisiana to build telephone sets in Singapore and the rumor has it that GTE will also close plants and build sets in Juarez, Mexico.

The President has indicated that manufacturing jobs will be replaced by service jobs in the future. If you are an employee and you purchased your home with AT&T/Western Electric or General Tel wages, you cannot make those payments on that house with the Burger King salary.

We wish to remind the committee that CWA's product is people, unemployment has devastating effects on families, and the Government doesn't seem to care. People quarrel with Japanese protectionism but what is Japan really doing? They are protecting the incomes, the livelihoods and dignity of their workers.

I agree with Mr. Richardson, call it what you will, CWA feels the American workers are entitled to the same concerns by their Government. This bill provides for a two-way street on trade, reciprocity as Mr. Luken so aptly termed it. We agree with that, and we urge the Congress to act soon to set fair trade rules.

Thank you.

[The prepared statement of Ms. Easterling follows:]

Testimony of Barbara J. Easterling
Executive Vice President, Communications Workers of America
Before the Subcommittees on --
Telecommunications, Consumer Protection and Finance
and
Commerce, Transportation and Tourism
House Committee on Energy and Commerce
October 1, 1985

We welcome the opportunity to comment on the several bills aimed at improving the position of the United States telecommunications equipment manufacturers in the face of trade deficits and many foreign practices, which are unacceptable if one wants to render more than lip service to free trade. We are encouraged by these bills.

We are aware that the Administration now indicates it has "found religion" on the fair trade issue. Some foreign trading partners hint they will open their trade policies. It would be naive to believe that any real improvement will emerge without steady pressure from Capitol Hill.

The President's recent speech noted the existence of unfair trade practices that have gone on for 16 years; we are encouraged that an American President has finally recognized a very bad situation. For far longer than 16 years, Presidents have refused to enforce existing trade law by abusing discretionary powers.

Those who oppose a truly fair trading system -- fair to our country's industries and workers -- are counting on the Congress quite soon to tire of the trade issue and move on to other matters. It is urgent that the Congress stay with this struggle, to guard our nation's economy and therefore its overall security. Many of our foreign friends provide little in the way of money or manpower toward the defense of the non-communist world; that massive burden is left to the United States.

The bills on which we are commenting are H.R. 3131, by Chairmen Florio and Wirth; H.R. 3350, by Chairman Markey; and H.R. 2037, by Representative Rinaldo. One thread in common is the conferring of numerous powers on the Federal Communications Commission to use the terminal equipment registration to help enforce United States trade law. The Florio-Wirth and Markey bills also establish new procedures for dealing with foreign protectionist trade practices.

Let me concentrate first on H.R. 3131. We suggest a number of clarifications to ensure that the legislation reaches its goal of increasing the exports of United States-made telecommunications goods from our shores. The bill is defining "United States supplier" in Section 3(9) as "any legal entity the headquarters and the primary control of which are located or based in the United States." Under this language, a zero export of domestic U.S. goods appears most likely. Foreign subsidiaries of U.S. companies, either in the country in question or a third country, would be treated as domestic entities; enforcement actions could be prevented. This provision, as presently written, would help U.S. multinational companies but would not of necessity have the effect of increasing domestic production of telecommunications equipment or associated employment. Because of this lack of clarity, we see U.S. exports faced with decreasing opportunities in foreign markets by the use of such overseas production.

Thus the definition of "United States supplier" and the substantive provisions using that term all need to be adjusted to carry out the intent of increasing exports from our shores.

Another major area of concern with H.R. 3131 is the timetable. As we interpret the bill, the interaction of a July 1986 effective date and the various timetables set forth place the first potential enforcement some 30 or more months away. Since damage has been occurring in the domestic telecommunications equipment market, a far quicker response is urgent. The United States has a long history of negotiating on telecommunications in an attempt to open foreign markets, such as that of Japan. The record of such negotiations has been dismal; we thoroughly disagree with the Finding in Section 2(a)(9) of H.R. 3131. Negotiations have not been successful because foreign governments have no incentive to do other than carry on a dilatory process of talking, while matters remain at status quo. We advocate that for countries with which negotiations have proven fruitless that sanctions be put in place and then negotiated away.

We are not using this occasion to condemn Japan for protection of its economy and its workers; our most severe criticism is directed at the United States government, which has pursued a policy of not caring at all for the welfare of U.S. workers, and whether they are employed in the key industries such as telecommunications. The U.S. government appears not to be concerned when a U.S. company decides to send its production offshore, to take advantage of wage rates running in the $1.40 to

$2.40 range. This situation cannot be shown to be healthy for our economy under any rational set of circumstances. Experience has shown us that trade negotiations normally run the full course or time allotted; therefore, any time set for a negotiations phase by H.R. 3131 should be cut back, to eliminate the possibility that 30 or more months will elapse before action can be taken.

We have major concerns over Section 4(b)(1)(B), which prohibits any member of the private sector from filing any unfair trade complaint or petition over denial of market access for 12 months, that is, before July 1, 1987. In the year prior to that date, i.e., starting July 1, 1986, the Secretary of Commerce is to be investigating the same conditions of which many members of the industry have been complaining for several years. Why are such investigations not complete today? Why build in further delay?

In several provisions of H.R. 3131, sizeable amounts of discretionary authority are conferred on the Secretary and the President; we find nothing in H.R. 3131 that provides for a certainty of corrective action. This matter urgently needs clarification in the bill.

Sections 5 and 9 can be interpreted to allow the President to do nothing. In Section 5, the President decides on enforcement actions that he "...considers necessary or appropriate to achieve equivalent telecommunications market access." Section 9 refers back to the Secretary's findings in Section 4, which form the basis for the Section 5 Presidential determination. As we read H.R. 3131, the only requirement actually imposed on a President is to inform the congress and publish a notice in the

Federal Register. A notice that no action is to be taken thus would be in compliance.

We believe the authors and many co-sponsors of H.R. 3131 do not intend to let a president decline to take proper action to enforce our trade laws.

Finally on the subject of the excessive discretionary authority, we refer to Section 10(a), in which the President may suspend action; he only needs to notify the Congress and publish a notice.

Two of the bills (H.R. 3131 and H.R. 3350) would confer considerable authority on the Federal Communications Commission to carry out market enforcement actions. As we understand the intentions of the sponsors the FCC would not be limited to its present Part 68 registration program, which only applies to terminal equipment, but instead would cover all equipment. As introduced, H.R. 2037 would apply only to the Part 68 terminal equipment categories, excluding the far more advanced, high-technology switching and transmission gear.

We note for the Subcommittees that the FCC recently responded in a negative matter to a Senate Appropriations Committee query as to the Commission's powers in this area. The matter originated last January 9, when FCC Chairman Mark Fowler said his agency was considering some kind of retaliation against Japan for intransigent protectionism in its telecommunications market, despite four years of an "open" market. On August 26, the commission sent a 25-page document which concluded that the FCC lacked such trade enforcement powers. We hope your statutory language and the legislative history will clearly tie down any areas of doubt. The tone of that FCC document indicates the Commission's leadership prefers not to have such powers. Thus we expect your efforts to confer powers will be resisted.

Two provisions (Section 6 of H.R. 3131 and Sections 301 and 304 of H.R. 3350) to confer the appropriate powers on the FCC are logical sequels to a key part of the Trade and Tariff Act of 1984, P.L. 98-573. I refer specifically to the "service sector access authorization" provisions, in Section 304(e), originally proposed by Chairman Florio. My point is that the enforcement proposals in the pending bills are not radical forays out into the unknown. We would be interested to know why the FCC's 25-page document did not cite the existence of the "service sector access authorization" as at least a factor indicating the power to enforce in unfair trade practices.

We urge clear and tight enforcement language for the FCC, and upon enactment into law, close oversight by the Congress to ensure that the law is faithfully executed.

We suggest several other amendments and clarifications to ensure that the bill will favorably affect domestic sales and employment in the telecommunications industry:

Section 2(b): The bill should aim to *eliminate*, not merely *reduce*, barriers and enhance domestic employment.

Section 2(9): This finding is not accurate as stated; this finding should be dropped from the bill.

Section 2(5): In lines 3 and 4, the words "participation in foreign telecommunications markets" is imprecise; more appropriate language would be "exports of telecommunications products from the United States" in lieu thereof.

Section 2(8)(D): Strike "maintaining" and insert in lieu thereof "maximizing." In view of the damage already done to U.S. telecommunications manufacturing, the goal of the bill should go beyond merely maintaining the status quo, which reflects a deteriorated situation.

Representative Rinaldo's bill, H.R. 2037, is an early attempt to take control of a bad situation, one which is worsening. However, its being limited only to terminal equipment renders the bill a less effective means. His bill's substance is included in H.R. 3131 and H.R. 3350.

Representative Markey's bill, H.R. 3350, is very close in substance and structure to S. 942, which recently was reported to the Senate by its Finance Committee. CWA and other labor groups, along with parts of the business community, worked closely with Senator John Danforth, his colleagues and staff in S. 942. We support that legislation, which is consonant with the idea of injecting fairness at long last in the trade in telecommunications equipment, which is of leading-edge technology and highest quality.

Unless H.R. 3131 is considerably strengthened, we would find it difficult to support, primarily because it lacks the certainty of action to correct unfair practices. We prefer the Markey bill, H.R. 3350.

We urge early action by your Subcommittees and the full Committee to report a strong bill for House action. We want to support your efforts.

Mr. FLORIO. Thank you very much.

Mr. Wood.

STATEMENT OF ROBERT B. WOOD

Mr. WOOD. Thank you, Mr. Chairman.

I am Robert Wood, director of the research and education department with the International Brotherhood of Electrical Workers.

Our organization represents in excess of 1 million workers employed in the electrical-electronics industry, of which about 200,000 are employed in the telecommunications industry.

I appeared before your subcommittee a little earlier this year, and I spoke of the job losses that we were experiencing at that time. I am sad to say that I am back here to report today that things are getting worse. I would like to briefly outline the employment situation as we have noted in our testimony.

If you look at what is happening in AT&T Technologies, formerly Western Electric, we see that the IBEW now has 30,000 members employed. This is about half of what it was just 4 years ago.

The plant where we represented employees at Lisle, IL, is closed, the plant at Kearny, NJ, which once employed 17,000 workers, has closed.

The plant at Indianapolis, IN, which once employed 7,000 has closed. Employment is down to 800 at Hawthorne, IL, at the plant there which once provided jobs for 24,000. These job losses in the AT&T manufacturing sector are not included in the recently announced layoff of 24,000 at the AT&T Information Systems.

In the last 30 days, 1,875 manufacturing employees at the Shreveport, LA, plant have been laid off and 500 have lost their jobs at Omaha, NE.

It has been reported to us that within the next 2 weeks an additional thousand workers will be laid off at a plant in Pennsylvania.

IBEW employment losses in the telecommunications industry have not been limited to AT&T companies. GTE Lenkurt, Inc., a subsidiary of General Telephone & Electronics, located in San Carlos, CA, went from 1,100 employees in 1981 to the plant being closed and all jobs eliminated in November 1983. GTE Communications Systems, formerly GTE Lenkurt, located in Albuquerque, NM, has lost over 1,100 jobs, going from 1,700 employees in 1978 to its current level of 550 in 1985.

GTE Automatic Electric, Inc. of North Lake, IL, has lost 1,500 jobs in just the last 5 years, going from 3,000 workers in 1980 to 1,500 being currently employed. Additionally, ITT Business Communications, a subsidiary of ITT Telecommunications located in Des Plaines, IL, went from employing 140 IBEW members to closing down their operations in 1983. These are further examples of a deteriorating employment situation that has been severely impacting the workers of the telecommunications industry.

There are many other examples we could give, but because time is of the essence, I would be pleased to furnish this committee at any time it would so desire, additional history on the job losses at the IBEW areas.

I would like to proceed by restating a point I made when I appeared before your committee, Mr. Chairman, earlier this year, and that was I said that I thought we ought to learn from our experiences and I mentioned the experience that we had in the television receiving industry.

I thought it was important to mention that experience, because there seemed to be a significant parallel that could be drawn between the television receiver industry and the telecommunications industry and that both are highly, technologically advanced industry and both industries seem to have been affected by imports in a similar fashion, that is by segments of the industry being targeted and from that, a larger base built by foreign firms in this country with their imports to the ultimate point of destroying the industry.

As I mentioned earlier this year in a television receiving industry, it is down to a final assembly operation. We have seen similar things happening in the telecommunications industry with much of the customer-owned equipment coming in from foreign countries.

I would like to now offer some specific comments with regard to the bill that this committee is presently considering. We believe it is absolutely essential that the U.S. telecommunications industry be defined as the U.S. domestic operations of telecommunications companies. It is not enough to ask U.S. firms whether or not they are having success in making sales to foreign countries.

Mr. Wood. Another point. If this bill is to be effective by providing for appropriate remedial action, it must be made clear in a bill that equivalent telecommunications market access will be evaluated in terms of access afforded U.S. exports, telecommunications equipment and services to a foreign country as compared to that country's access for its telecommunications exports to the United States.

In other words, we are recommending that the evaluation of market access be made on an export basis. Where it has been determined that a foreign country is denying equivalent market access to U.S. telecommunications exports sanctions must be taken against all exports of telecommunications equipment and services from all companies providing such and operating within that foreign country.

Another point, another area of the bill that we feel needs to be adjusted is that dealing with the time limits. If the bill can be enacted into law in a reasonably short timeframe, as we hope it can, there is no good reason to delay its effective date to July 1, 1986.

It should become effective immediately upon enactment. The initialization of investigation by petition, we recommend, should become operative with the date of enactment of the bill.

Another and final important point is that the bill must, as it presently does, mandate that the President take some form of appropriate action and certainly should not be changed to leave whether or not action shall be taken to the discretion of the President.

Thank you, Mr. Chairman.

[Testimony resumes on p. 383.]

[The prepared statement of Mr. Wood follows:]

TESTIMONY OF

ROBERT B. WOOD

BEFORE THE JOINT HEARING OF

THE SUBCOMMITTEE ON COMMERCE, TRANSPORTATION, AND TOURISM

AND

THE SUBCOMMITTEE ON TELECOMMUNICATIONS, CONSUMER PROTECTION AND FINANCE

OF

THE COMMITTEE ON ENERGY AND COMMERCE,

U.S. HOUSE OF REPRESENTATIVES

My name is Robert B. Wood. I am appearing today before these Subcommittees on behalf of Charles H. Pillard, International President of the International Brotherhood of Electrical Workers. The IBEW represents about one million members employed in the different branches of the Electrical, Electronic, and Telecommunications Industries. Several hundred thousand of our members are directly employed in the Telecommunications Industry. Some of them currently work for telephone operating companies, such as the various Bell Operating Companies, General Telephone, United Telephone, Central Telephone and Utilities, Alltel Systems, and many other independent telephone companies. Others are employed by telephone interconnect companies, such as Fisk Telephone Systems, Inc.; RCA Service Company; ITT Services, Inc.; GTE Automatic Electric, and others. Many of our members, as well, are employed by companies that manufacture telecommunications equipment, such as the AT&T Manufacturing Branch, AT&T Technology, formerly Western Electric; GTE Automatic Electric; GTE Lenkurt; and others.

From the foregoing, one can see that the IBEW's involvement in the Telecommunications Industry has been substantial. Needless to say, our concern for what has been happening to the Domestic Telecommunications Equipment Industry is paramount.

Congressman Florio and Congressman Wirth, you and the other sponsors of HR 3131 are to be complimented for recognizing the significance of our trade problems in the Telecommunications Industry. Your bill is certainly an initiative in the right direction. We, indeed, agree with what appears to be its purpose and objectives. However, we have some specific suggestions that we hope could be added to the bill that would, in our view, enhance its effectiveness in producing the desired results. Those comments will be offered shortly.

What we see happening in the Telecommunications Industry is a direct reflection of what has happened to the Television Receiver Industry in the U.S. I am sure you are well aware of what has happened to the Domestic Television Industry and domestic employment within that industry. But, because of the paralleling developments we see taking place in the Telecommunications Industry, we believe it is helpful to summarize those developments.

Initially, in the Television Receiver Industry, it was imported components that impacted upon domestic employment and domestic manufacturing operations involved in the production of those components. The importation of components grew to include subassemblies and modules. Next, the Black and White Television Receiver Industry became totally dominated by imported sets with ultimately no U.S. production of black and white sets. Concurrently, the import penetration ratio of color television receivers grew steadily.

Again, just as in the Black and White Receiver Industry, it was, at first, importation of parts, modules, and subassemblies. Next, nearly-completed sets were imported. Then, completed sets of small-screen size entered the U.S. marketplace with the set size steadily growing. Today in our country we have basically a Color Television Receiver Industry consisting of final-assembly operations providing just a fraction of the employment opportunities that existed prior to the decimation of this industry.

As a comparison of the developments is made, it is important to keep in mind several pertinent facts. Television technology was developed in this country. U.S. producers enjoyed the position of being on the leading edge of that technology. The development of the transistor and integrated circuit took place in this country and advanced the state-of-the-art of the Television Receiver Industry. In spite of these technological advantages, imports steadily grew and grew to such magnitude that today it is impossible to buy a television receiver that is wholly U.S.-made. What is just as significant to note is that while the U.S. Television Receiver Industry was being affected by imports, especially from Japan, Taiwan, and South Korea, there was practically no opportunity for the export of television sets made in this country.

We see very similar developments occurring in the Telecommunications Industry, and these developments are occurring under very similar circumstances. The state-of-the-art in the Telecommunications Industry in the U.S. is second to none. The Domestic Telecommunications Industry has been, and continues to be, on the leading edge of technology in this field. Yet, we have been unable to develop export markets for the Telecommunications equipment we produce. The U.S. market is open to the firms of foreign countries. Imports have been increasing substantially, especially since the divestiture of AT&T. Imports of telephone sets used in both home and commercial operations have flooded the marketplace. There have been increasing amounts of imported equipment used in the telephone interconnect sector, and there has been an increasing amount of imported switchgear and other telephone apparatus utilized throughout the Telecommunications Industry. All of this is taking place in an industry that is highly recognized to be the most technologically advanced in the world.

At the same time, we have been denied export opportunities for products of this industry to our so-called trading partners. If a U.S. industry cannot sell products in an area in which we are highly technologically advanced, what kind of industry can we expect to derive export sales from? Another question we might raise is, given the present course of events that have taken place in the Telecommunications Industry, what evidence can one offer that this industry will not go the same route the Television Receiver Industry went? We submit that there is not a great deal of difference in the micro-electronics involved in television production and that involved in the production of telecommunications equipment. What has happened to the Domestic Television Industry can happen to the Domestic Telecommunications Industry, and such changes can occur very rapidly.

From January, 1980, to June, 1985, employment for production workers in SIC 3661, Telephone and Telegraph Equipment, declined in the United States by 21.2 percent. The IBEW has experienced about a 40 percent job loss in that category since 1981. Of course, this one SIC category does not cover the full range of products in the Telecommunications Industry; but the employment experience in this category is representative of what is happening on a broader scale.

A closer look at employment at AT&T Technologies, formerly Western Electric, also indicates the employment trends in this industry. Combined, IBEW employment at these plants is now about 30,000. This is about one-half what it was just four years ago. The plant where we represented employees at Lisle, Illinois, has closed. The plant at Kearny, New Jersey, which once employed as many as 17,000 workers, has closed. The plant at Indianapolis, Indiana, which once employed 7,000, has closed. Employment is down to 800 at the Hawthorne, Illinois, plant, which once provided jobs for 24,000. These job losses in the AT&T manufacturing sector are not included in the recently announced layoff of 24,000 at AT&T Information Systems. In the last thirty days, 1,875 manufacturing employees at the Shreveport, Louisiana, plant have been laid off; and 500 have lost their jobs at Omaha, Nebraska. It has been reported to us that within the next two weeks 1,000 workers will be laid off at a plant in Pennsylvania.

IBEW employment losses in the Telecommunications Industry have not been limited to AT&T companies. GTE Lenkurt, Inc., a subsidiary of General Telephone and Electronics, located in San Carlos, California, went from 1,100 employees in 1981 to the plant being closed and all jobs eliminated in November, 1983. GTE Communications System, formerly GTE Lenkurt, located in Albuquerque, New Mexico, has lost over 1,100 jobs, going from 1,700 employees in 1978 to its current level of 550 in 1985. GTE Automatic Electric, Inc., of North Lake, Illinois, has lost 1,500 jobs in just the last five years, going from 3,000 workers in 1980 to 1,500 being currently employed. Additionally, ITT Business Communications, a subsidiary of ITT Telecommunications, located in Des Plaines, Illinois, went from employing 140 IBEW members to closing down their operations in 1983. These are further examples of a deteriorating employment situation that has been severely impacting the workers of the Telecommunications Industry.

The intensity with which foreign imports of Telephone and Telegraph Equipment have overwhelmed the United States market is of a magnitude unforeseen by anyone. In 1982 the United States had approximately a $200-million dollar trade surplus in this industry. In 1983 the surge of imports had changed that surplus to a $418 million trade deficit , a $600 million swing in just one year; and the condition was rapidly worsening. In 1984 the deficit in Telecommunications was over $1 billion, and projections for 1985 are for a deficit on the order of $1.7 billion. This means that from a $200-million dollar surplus in 1982 we will have gone to a combined deficit of approximately $3.1 billion for the years 1983-85. Under current conditions no end or relief from this surge is anticipated. In 1983 imports increased by 93 percent; in 1984, by 44 percent; in 1985 it is anticipated by another 44 percent; and this is expected to continue unabated without some strong action.

What has caused these staggering deficits? According to The U.S. Industrial Outlook for 1985, published by the Commerce Department:

> "These deficits have arisen because U.S. manufacturers have only limited access to many foreign government-controlled markets, whereas divestiture completely opened the U.S. market to foreign competition."

What have we done to remedy this problem? On January 1, 1981, we put into effect an agreement with Japan, the largest exporter of telecommunications equipment to the United States, to open up the Japanese market to U.S. exports of telecommunications equipment. This was known as the NTT Agreement.

Has this remedy worked?

In evaluating the agreement, it is helpful to use the standards established by former United States Trade Representative Reubin Askew and later by a successor, now Secretary of Labor, William Brock.

In December, 1980, upon completion of negotiating the agreement, then Ambassador Askew said,

> "The proof of the new agreement with Japan will be in how much procurement NTT does with U.S. and foreign suppliers. We consider Japan is on a trial period. In three years the GATT Code will be reopened for negotiation - and if NTT has not made significant purchases from U.S. suppliers, we would consider them noncompliant with the GATT Code and the U.S. would consider countermeasures."

Ambassador Brock on June 9, 1982, before the Senate Finance Committee, Subcommittee on Trade, in reporting on the operation of the MTN Government Procurement Code and the U.S/Japan NTT Agreement made the following statements:

> "The acid test for the Agreements will be their commercial results."
>
> "The proof of the pudding is in the eating and we are entering into a critical period for the agreement...

> Of course, we will not agree to extend the agreement unless we believe it has worked as intended. The next twelve months will be particularly critical..." "I will try not to predict the outcome of our evaluation as at this point only time and sales by U.S. firms will tell. It is my hope, however, that a year from now we will be able to report significant commercial results from the agreement.

In reviewing the four years this remedy has been in effect, we can readily determine the "proof of the pudding." From 1981 to 1984, the Japanese purchased $61 million in telecommunications equipment from the United States. During this same four-year period, the Japanese sold $1.948 billion in telecommunications equipment to the U.S. with exports of $941 million in 1984 alone. This means, that during the four years of this agreement, that for every $1 dollar in exports of U.S. telecommunications equipment to Japan the Japanese exported $32 dollars worth of telecommunications equipment to the United States. The workers we represent cannot afford to eat any more of this pudding. Even with this abhorent result, this agreement was renewed and continues to be held as a solution to our problems.

The Trade and Tariff Act of 1984 defines the term "unreasonable" with regard to tariff or import restrictions to mean any act, policy or practice which, while not necessarily in violation of, or inconsistent with, the international legal rights of the United States, is otherwise deemed to be unfair and inequitable. The term includes, but is not limited to, an act, policy or practice which denies fair and equitable market opportunities.

It is beyond the realm of reason to suggest that the United States Telecommunications Industry, the acknowledged world technological leader, is being provided anything resembling fair and equitable market opportunities in Japan with a 32-to-1 trade flow advantage on the part of the Japanese over the last four years. The $914-million trade surplus in telecommunications equipment that Japan had in 1984 with the United States very clearly identifies the inequitable market opportunities afforded the U.S.

It is evident Japan has used the NTT Agreement as a delaying tactic in order to increase their exports of telecommunications equipment to the U.S. market while at the same time continuing to keep their market closed. The Japanese have used the unfair advantage of a protected home market to promote exports while at the same time experiencing no competition at home.

We would like to, at this time, offer some specific comments on "The Telecommunications Trade Act of 1985," HR 3131. The IBEW is here to endorse the stated purpose of the bill which is "to identify and reduce barriers to, and distortions of, international trade affecting United States suppliers of telecommunications equipment and services in interstate and foreign commerce."

We are in agreement with most of the findings of this bill which clearly portray the tremendous international and domestic significance of this industry while illustrating the deteriorating position of U.S.-produced products and services, both within the United States and internationally.

We are pleased to see your recognition that the continued economic growth and international competitiveness of the United States telecommunications industry is vital to long-term research and development projects; the development and introduction of new equipment and services; the maintenance of a state-of-the-art telecommunications network within the United States; and, most important to us, the maximizing of employment opportunities for United States workers in this industry.

The IBEW believes it is extremely important to state within the purpose of the Act that the Act is to foster not only economic and technological growth but to foster growth in domestic employment in the Telecommunications Industry. We also believe that it is essential to define the U.S. Telecommunications Industry as the U.S. domestic operations of telecommunications companies within the Telecommunications Industry. We feel that this is extremely important in that no benefit accrues to American workers from the foreign operations of U.S.-based multinational corporations. In fact, any legislation that would result in making it easier or more conducive for U.S.-based multinational corporations to set up operations in foreign countries would be inimical to American worker's interests. The IBEW believes a critical element of any trade legislation should have inherently a constant focus on domestic employment. The protection and restoration of American worker's jobs, devasted by the flood of imports of telecommunications products, should be the primary theme of any trade legislation. The importance of domestic employment must be clearly identified in the stated purposes of the Act.

The preservation and creation of domestic jobs is so important that it should be emphasized throughout this legislation. As well as being included in the stated purposes, it should be included as a "factor to be taken into account" in any investigation of foreign trade barriers. Any review process should also give substantial consideration to the domestic employment benefits that have resulted.

Another area of the bill we would like to see adjusted is that dealing with time limits. If this bill can be enacted into law in a reasonably short time-frame, as we hope it can, there is no good reason to delay its effective date to July 1, 1986. It should become effective immediately upon enactment. Neither should there be a delay of one year before an investigation can be initiated by petition. There is no reason why a mandatory investigation and a petition-initiated one could not be done concurrently and thus preclude any unnecessary delays. The current situation in the telecommunications industry requires expedient action and cannot afford the luxury of any delays.

There are some voices heard that are all too quick to brand any trade legislation as protectionist. The knee-jerk free traders make their pronouncements without any serious examination of the problems facing an industry or any attempt at reaching a rational solution to address those problems. This bill aims to open foreign markets and if that cannot be done calls for a proper response in our own market. Those who are quick to hold up the spector of retaliation should have no objection when the United States applies the proper economic response to the unfair trade practices of other countries.

We thank you, as Joint Chairmen, for recognizing the trade problems our country has in the telecommunications area; and we appreciate the focus your efforts have brought to bear on these problems. If our country is going to come to grips with these problems, we must be prepared to take appropriate remedial action. We must not only be prepared to take appropriate action; we must take that action in a timely manner in order for it to be effective. With the inclusion of the adjustments we have offered in HR 3131, the International Brotherhood of Electrical Workers believes that a vital, technologically-advanced, and competitive industry will be helped in regaining its rightful position and that American workers will be able to experience job opportunities and growth and not suffer job losses and unemployment for unjustifiable reasons.

page
missing

proach could result in a trading system in which trade flows are balanced on a country-by-country, sector-by-sector basis. Such an approach would fail to provide the efficient utilization of the world's resources that is now afforded under the most-favored-nation [MFN] principle.

While all nations are tempted by the lure of sectorial reciprocity, the United States has recognized that such an approach would undermine the multilateral MFN approach to international trade and lead to an unravelling of gains achieved in pirior trade negotiations. Moreover, if the sectorial reciprocity standard is applied in telecommunications, it will undoubtedly spread to other sectors.

CIA-J also concerned with the implications of the enforcement provisions of the bill and in particular the use of the FCC to impose retaliatory measures. The FCC was established as an independent regulatory agency with responsibility for fostering the development of a communications network for the benefit of the American public. Yet, the bill would force the FCC to alter its regulatory program to promote objectives inconsistent with the Commission's underlying mandate.

We also believe that the bill limits the President's discretion in the trade area at a time when the President's flexibility is of critical importance. Because the bill makes retaliation mandatory where equivalent market access is found not to exist, it leaves the President with little room to maneuver.

Rather than pass overtly protectionist legislation such as the Danforth bill or legislation which imposes sectorial reciprocity or mandatory retaliation, we recommend that the Congress and the President explore the possibility of negotiating multilateral agreements covering trade in telecommunications products and services under the auspices of the GATT, perhaps in the context of the new trade round. We suggest, as a model, the conditional MFN agreements which were negotiated in the Tokyo Round, commonly known today as MTN Codes.

In conclusion, Mr. Chairman, CIA-J agrees with and supports the stated goal of this legislation: more open global trade in telecommunications. We fear, however, that this legislation may impede rather than promote achievement of this goal. The liberalized trading system embodied in the GATT agreement has brought economic growth and a rising standard of living to the world. The lesson in that history is that multilateral trade approach works. We urge the subcommittee to continue the tradition of U.S. leadership in strengthening the international trading system.

Thank you.

[Testimony resumes on p. 398.]

[The prepared statement of Mr. Anderson follows:]

Testimony
of
STANTON D. ANDERSON
on
behalf of the
Communications Industry Association of Japan

Chairman Wirth, Chairman Florio, and Members of the Subcommittees:

I want to thank you for this opportunity to speak to you today regarding H.R. 3131 "The Telecommunications Trade Act of 1985". I am here on behalf of the Communications Industry Association of Japan (CIA-J). CIA-J is the leading organization of communications equipment manufacturers in Japan. CIA-J is composed of over 200 firms, including a number of American firms, which produce communications equipment for the Japanese domestic market and for export to world markets.

Let me begin by commending the Chairmen of these two Subcommittees for their long-standing effort to obtain further liberalization of global telecommunications trade. We commend the Chairmen for taking an approach designed to open foreign markets through negotiations -- not designed to mandatorily close our markets. CIA-J is particularly grateful to the Chairmen for their recognition in the findings and purposes section of H.R. 3131 that significant efforts have been made and progress achieved by the Japanese in opening their telecommunications market to U.S. suppliers.

Legislation pending elsewhere in the Congress ignores the fact that substantial progress has been made on the telecommunications trade issue, through the Market Oriented Sector - Specific (MOSS) Process, and the extent to which Japan leads every country outside the U.S. in deregulating its telecommunications industry and opening its markets.

Japan is firmly committed to an open telecommunications market. Japan imposes no tariffs on telecommunications equipment and has undergone a process of deregulation and privatization of its telecommunications market. In December 1984, motivated by the same desire for competition and innovation that led to U.S. telecommunications deregulation, the Japanese Diet enacted legislation which, among other things, transformed NTT, formerly a government owned monopoly, into a privately owned company, authorized private firms to compete directly with NTT in providing transmission services, and permitted unlimited foreign entry into the lucrative and expanding Value Added Networks market.

Following the enactment of this legislation, the Japanese Government worked with U.S. Government officials and industry representatives to finalize Ministerial and

Cabinet Ordinances which implement the new legislation. The Japanese Government accommodated the U.S. Government's request for modifications of the Ordinances as they relate to standards and procedures for testing and approving equipment, and the registration of common carriers. The Japanese Government also agreed to enable U.S. firms to participate in the development of future rules and certification procedures.

As a result of these efforts and developments, Japan has achieved regulatory parity with the United States in the essential areas of product standards and certification. A recent analysis by the Federal Communications Commission (FCC) Common Carrier Bureau of terminal equipment approval in Japan concludes that "the Japanese program like the FCC's . . . is now limited to preventing harm to the network."

The openness of the Japanese market today ranks only behind the United States. This fact has been acknowledged by U.S. and other non-Japanese firms presently competing in Japan. At a recent conference on NTT procurement here in Washington, John Hinds, a Vice President of AT&T International, commented that the requirements for success in Japan, responsiveness to customer demands and a commitment to quality, were not significantly different from any place else. Dr. H.A. Hamilton, President of Northern Telecom-Japan, commented at the same conference that selling to NTT in Japan was no more difficult than selling to AT&T in the United States, and that a commitment to product quality and a willingness to adapt to Japanese market conditions were essential to success.

We also commend the Bill's sponsors for not including provisions which discriminate against particular countries in determining whether foreign market access is present. As members of the Subcommittees are aware, in the current political environmen. there is a tendency to single out Japan as the cause of our trade problem despite the fact that Japan's share of the U.S. trade deficit has declined from 45.6% in 1981 to 29.8% in 1984. We appreciate the sponsors' careful effort to avoid placing blame upon Japan for America's trade difficulties.

In this connection, I would note that other proposals pending in the Congress which concern telecommunications trade, including Senator Danforth's Bill (S. 942) and its

House companions, establish separate standards and enforcement tracks for Japan vis-a-vis all other countries. The Danforth Bill includes a provision (Section 102 (b) (2)) which, for all practical purposes, would deem the NTT Agreement to have been violated by Japan and thereby ensure trade retaliation in the form of increased tariffs or quotas. Such an approach to telecommunications trade policy is neither constructive in achieving an opening of markets worldwide nor in the long term interest of the United States.

Let me commend the Bill's sponsors for providing a realistic set of factors for assessing whether a country is denying U.S. firms equivalent market access. The factors set forth under Section 4 (f) (1) and (2) relating to price competitiveness, marketing efforts and investment opportunities are important because they reflect the terms of trade in a realistic commercial context. Similarly, consideration of the relative success of U.S. suppliers in various markets as provided under Section 4 (f) (3), is also essential provided that this standard is not viewed rigidly. It must be recognized that the success of U.S. suppliers in particular countries is dependent upon the level of investment by those suppliers in manufacturing, marketing and service facilities. Entry by foreign firms into overseas telecommunications markets is a slow, costly and high risk process. In the United States, competition was first introduced into the interconnect market in 1968 as a result of the FCC Carterphone Decision. Yet in 1978, more than 10 years after Carterphone, telecommunications imports accounted for only 3% of total U.S. shipments of telecommunications equipment.

With respect to the last factor enumerated under Section 4 (g) (4), the impact of employment in the telecommunications industry, we fail to see its relevance to a determination of whether a foreign country is denying equivalent market access. We share the concern of the Bill's sponsors over the impact of telecommunications imports on U.S. employment, but believe that other more appropriate remedies to this problem are available. For example, import relief for trade impacted workers available under Section 201 of the Trade Act of 1974 assistance for displaced workers is available under the Job Partnership Training Act and under the Trade Adjustment Assistance Program. These programs are the appropriate avenue for easing the adjustment process for workers impacted by the rapidly changing landscape of the telecommunications industry.

Let me now turn to the "substantially equivalent market access" standard defined under Section 3 of the Bill. This standard is a significant improvement over the sectorial reciprocity provisions contained in other legislation pending in the Congress and we commend the sponsors for avoiding the imposition of a "mirror image" requirement. I remain concerned, however, over the use of a sectorial reciprocity standard in telecommunications trade. The United States has consistently opposed the application of sectorial reciprocity to the world trading system because that approach could result in a trading system in which trade flows are balanced on a country-by-country, sector-by-sector basis. Such an approach would fail to provide the efficient utilization of the world's resources that is now afforded under the Most Favored Nation (MFN) principle.

While all nations are tempted by the lure of sectorial reciprocity, the United States has recognized that such an approach would undermine the multilateral - MFN approach to international trade and lead to an unraveling of gains achieved in prior trade negotiations. Moreover, if the sectorial reciprocity standard is applied in telecommunications, it will undoubtedly spread to other sectors.

It has been suggested that a deviation from the U.S. policy against sectorial reciprocity is somehow acceptable in the telecommunications area because the United States unilaterally granted concessions in this sector through the AT&T divestiture and has not been compensated by its trading partners. I must emphasize that the fact that the United States unilaterally opened its telecommunications market without receiving concessions from its trading partners cannot be a justification for the imposition of sectorial reciprocity. It is well established GATT practice that unilateral action by a signatory which in some fashion provides a benefit to that signatory's trading partner does not give rise to a claim for compensation or reciprocal concessions --particularly on a sectorial basis. For the U.S. to now demand reciprocal concessions through the threat of retaliation after it chose at an earlier time to deregulate its telecommunications market unilaterally, is a departure from GATT practice and a large step toward the unraveling of the trading system.

CIA-J is also concerned with the implications of the enforcement provisions of the Bill and in particular the use of the Federal Communications Commission (FCC) to impose retaliatory measures. The FCC was established as an independent regulatory agency with responsibility for fostering the development of a communications network for the benefit of the American public. Yet, the Bill would force the FCC to alter its regulatory program to promote objectives inconsistent with the Commission's underlying mandate. Use of the FCC's certification authority to protect domestic equipment manufacturers from import competition would contravene the Commission's fundamental responsibility for enhancing the universal availability of adequate communications facilities at reasonable charges.

In addition, the expanded powers in the international trade area granted to the FCC would not be subject to effective oversight by the President, and it would almost be impossible to coordinate the enforcement actions of the Commission with ongoing international negotiations.

As the members of the Subcommittees are aware, the FCC's Common Carrier Bureau, in its recent report to the Congress, identified a number of problems that would arise under the Bill. Among those problems would be difficulties the Commission would experience in pinpointing the country of origin of equipment; in detecting the use of uncertified equipment; and in plugging the numerous regulatory loopholes which would exist if the FCC attempted to withhold certification from a particular country. The report also expressed concern that the denial of certification would slow the administrative process and trigger both administrative and judicial appeals.

The United States has long avoided using a regulatory certification procedure to retaliate against unfair trade practices because of the precedent this would establish for other nations. Using a regulatory agency in that fashion would be opening Pandora's box; once this practice is initiated in telecommunications, it will quickly spread to other sectors.

We also believe that the Bill limits the President's discretion in the trade area at a time when the President's flexibility is of critical importance. Because the Bill makes retaliation mandatory where equivalent market access is found not to exist, it leaves the President with little room to maneuver. What little flexibility the Bill seeks to give the President, through the option of proceeding with retaliation under subsections (b) and (c) of Section 301 of the Trade Act of 1974, rather than through the FCC, is illusory. Section 301, in its own right, is an excellent tool for dealing with unfair trade practices and provides the President with the necessary flexibility to conduct trade policy. The flexibility in Section 301 permits the President to respond proportionately to developments in a timely fashion. However, the same is not true of the enforcement provisions of Section 7 of the Bill which specify that the President must either suspend the benefits of trade concessions, impose duties or other import restrictions, or limit imports through restrictions on the terms and conditions of telecommunications access authorizations.

CIA-J supports further liberalization of world telecommunications markets through continued negotiations. Rather than pass overtly protectionist legislation, such as the Danforth Bill, or legislation which imposes sectorial reciprocity or mandatory retaliation, we recommend that the Congress and the President explore the possibility of negotiating multilateral agreements covering trade in telecommunications products and services under the auspices of the GATT, perhaps in the context of the new Trade Round.

We suggest as a model the conditional MFN agreements which were negotiated in the Tokyo Round, commonly known as the Multilateral Trade Negotiation (MTN) Codes.

There are several advantages to this approach. First, because such a multilateral Code would be a conditional MFN agreement, its benefits would only extend to signatories. Therefore, a Code creates an incentive for non-signatories to sign so that they can also enjoy the benefits. I would also point out that under the multilateral Code approach the results are truly negotiated, not imposed. One of the benefits of the conditional MFN approach is that an agreement can be reached among like-minded countries without the participation of all countries. Hence, the U.S. can proceed toward multilateral liberalization in telecommunications without having negotiations blocked by those nations which are not prepared to liberalize. The Code approach also eliminates the "free rider" problem which occurs when concessions are granted on an unconditional MFN basis. The classic "free rider" is the country which makes no concessions itself, but enjoys the benefits of concessions made by others. Most importantly, the multilateral Code approach will be consistent with the U.S. Government's adherence to international norms and its desire to strengthen, rather than weaken, the international framework of GATT Agreements. It may be useful for the Administration and the Congress to begin exploring how telecommunications issues can be addressed in the new Trade Round. An attempt should also be made to obtain the views of our trading partners on this approach to the liberalization of world telecommunications trade.

In conclusion, CIA-J agrees with and supports the stated goal of this legislation: more open global trade in telecommunications. We fear, however, that the legislation may impede rather than promote achievement of this goal. The liberalized trading system embodied in the GATT Agreement has brought economic growth and rising living standards to the world. The lesson in that history is that the multilateral trade approach works and works well. We urge the Subcommittees to continue the tradition of U.S. leadership in strengthening the international trading system.

Thank you.

This material is circulated by Anderson, Hibey, Nauheim & Blair, 1708 New Hampshire Avenue, N.W., Washington, D.C. 20009, which is registered with the Department of Justice, Washington, D.C., under the Foreign Agents Registration Act as an agent for the Communications Industry Association of Japan. The required registration statement is available at the Department of Justice for public inspection. Registration does not indicate approval of this material by the U.S. Government.

Mr. Florio. Thank you very much.
Mr. O'Connor.

STATEMENT OF WILLIAM Y. O'CONNOR

Mr. O'Connor. Mr. Chairman, members of the subcommittee, my name is William O'Connor and I am president of Executone Corp., headquartered in Jericho, NY.

I appreciate the opportunity to appear before your subcommittees and I commend the members of the subcommittees for your sincere commitment to opening foreign markets for American telecommunications products.

Executone is a subsidiary of Continental Telecom, Inc., of Atlanta, GA, and is the Nation's largest independent supplier of telecommunications equipment for small- and medium-sized business applications. We operate through a nationwide network of over 130 distributors—some wholly owned and some independent—with offices in over 240 cities. Executone today offers a broad range of key telephone systems, private branch exchanges (PBX's), and other telecommunications equipment to telecommunications users throughout the United States.

I am here today because Executone's very existence is threatened by several telecommunications trade proposals now pending before Congress. The severe negative effects of this proposed legislation on Executone and other domestic businesses like ours, on our workers, and on the thousands of businesses that depend on our products have not yet received adequate scrutiny.

But I am certain that, if these proposals go forward, there are modifications which you can make so that these potentially disastrous effects are more tolerable.

Let me emphasize at the outset that, like the chairmen and the members of these subcommittees, Executone believes that the United States must take all reasonable actions to encourage other nations to dismantle their trade barriers and to permit the free flow of goods into their markets.

Should retaliatory action be taken, as envisioned by the pending bills, however, the effect on Executone would be devastating. While Executone markets many products, including some made in the United States, our No. 1 product line—accounting for about 60 to 65 percent of our total sales—is key telephone systems, all of which are manufactured in Japan.

The loss of access to these products would have very obvious negative effects on our company directly, but the loss to the economy generally would be equally important. First, over 70 percent of the revenue from the sales of Executone key systems remains in the United States. Second, these sales support over 4,500 workers nationwide.

Further, other companies' U.S. operations in support of sales of foreign made key systems employ over 35,000 workers. The economic benefits to the United States represented by those sales and employment would be jeopardized by any retaliatory actions.

Fair trade legislation should not cost American jobs. Nor should it destroy American telecommunications companies. That would be counterproductive.

Nor should such legislation unfairly punish American businesses which depend on the availability of imported key telephone system products. A cutoff of imported key telephones would result in an immediate and dramatic increase in the cost of key telephone systems. Further, if import restrictions were put into effect, American businesses which already utilize imported key telephone systems would suffer from a shortage of spare parts.

Ironically, import restrictions on key telephones would benefit essentially one American company—AT&T. Competition in the key system marketplace is provided almost entirely by imported products. Without those products, AT&T would have a virtual monopoly in this product line. We do not believe that this result is intended by the proponents of the pending legislation.

But are there benefits from passage of the proposed legislation which would justify the risks I have described? I do not think so. Only small gains could be made in U.S. exports in this area because of the limited nature of domestic manufacturing of key systems. A major effort by the U.S. Government to promote the export of these products would simply divert resources from areas where the prospects for success on a large scale are more attractive.

In conclusion, Executone urges you to minimize the potential harm to U.S. businesses, workers, and consumers from any import restrictions and to maximize the impact of any telecommunications trade legislation by limiting its scope to high technology products.

Specifically, we ask that H.R. 3131 and any similar trade bill which moves forward in the Congress be amended to exclude key telephones from their coverage, especially with respect to products on which import restrictions may be imposed. Executone would be pleased to work with the members and staff of the subcommittees to develop legislation to accomplish this purpose.

Thank you for this opportunity to present Executone's views.

[The prepared statement of Mr. O'Connor follows:]

STATEMENT OF
WILLIAM Y. O'CONNOR
PRESIDENT, EXECUTONE, INC.

Mr. Chairmen and Members of the Subcommittees my name is William O'Connor, and I am President of Executone, Inc. I appreciate the opportunity to appear before your Subcommittees, and I commend you and the Members of the Subcommittees for your sincere commitment to opening foreign markets for American telecommunication products.

Executone is a subsidiary of Continental Telecom, Inc. of Atlanta, Georgia, and is the nation's largest independent supplier of telecommunications equipment for small and medium-sized business applications. We operate through a nationwide network of over 130 distributors (some wholly owned and some independent) with offices in over 240 cities. Executone was founded in 1936 and pioneered institutional intercom systems. While we continue to develop and innovate our intercom business, providing service to hospitals and other institutions around the country, Executone today offers a broad range of key telephone systems, private branch exchanges (PBXs), and other telecommunications equipment to telecommunications users throughout the United States. Executone and its wholly owned and independent distributors employ over 4,500 people who design, sell, and service our products in all 50 states.

I am here today because Executone's very existence is threatened by several telecommunications trade proposals now pending before Congress. The severe negative effects of this proposed legislation--on Executone and other domestic businesses like ours, on our workers, and on the thousands of businesses that depend on our products--have not yet received adequate scrutiny. But I am certain that, if these proposals go forward, there are modifications which you can make to ameliorate these potentially disastrous effects.

Let me emphasize at the outset that, like the Chairmen and the Members of these subcommittees, Executone believes that the United States must take all reasonable actions to encourage other nations to dismantle their trade barriers and to permit the free flow of goods into their markets. Free trade strengthens our domestic telecommunications industry, creates new jobs, and assures consumers of access to the best products at a fair price. I am not an expert concerning the barriers which have existed to American exports in Japan or elsewhere. My purpose in appearing here today is solely to explain the adverse effects the pending bills would have on American business, American workers, and American consumers, with the plea that if legislation goes forward, it be amended to protect legitimate American business interests.

Notwithstanding the sponsors' intent that H.R. 3131 and other similar pending legislation work to open foreign markets, we at Executone are convinced that the enactment of these bills would lead very quickly to retaliatory action by the United States Government against Japan and other trading partners. Should such retaliatory action be taken, whether in the form of increased tariffs, import limitations, or restrictions implemented through FCC product certification barriers, the effect on Executone would be devastating. While Executone markets many products, including some made in the United States, our number one product line--accounting for about 60-65% of our total sales--is key telephone systems, all of which are manufactured in Japan. The loss of access to these products would have very obvious negative effects on our company directly, but the loss to the economy generally would be equally important. First, over 70% of the revenue from the sales of Executone key systems remains in the United States--foreign production consumes less than 30% of the price paid by the American purchasers of these products.

Second, our product research, marketing, sales, and service operations employ over 4,500 workers nationwide. Further, other companies' U.S. operations in support of sales of foreign-made key systems employ over 35,000 workers. Our estimate is that over half of the revenue from final sales of these companies' key systems is attributable to U.S.

operations. There is very substantial, direct benefit to the U.S. economy from the sales, service, and related support activities associated with the sale of imported key telephone systems. All that benefit would be jeopardized by retaliatory actions.

"Fair trade" legislation should not cost American jobs. Nor should it destroy American telecommunications companies. That would be counterproductive.

Nor should such legislation unfairly punish American businesses which depend on the availability of imported key telephone system products. We estimate that a cutoff of imported key telephones, which now account for about 47% of the total key system market, would result in an immediate and dramatic increase in the cost of key telephone systems--even if American producers were able and willing to supply sufficient quantities to meet the current demand levels for these systems. Further, if import restrictions were put into effect, American businesses which already utilize imported key telephone systems would suffer from a shortage of spare parts.

Ironically, import restrictions on key telephones would benefit essentially one American company. AT&T accounts for the bulk of current U.S. production of key telephones--over 30% of the total market for these products and about 60% of U.S. production. Competition in the key system marketplace is provided almost entirely by imported products. Without those products, AT&T would have a virtual monopoly in this product line. Because of other court and regulatory actions, however, this new monopoly position would be essentially unregulated, requiring either the reimposition of the discredited price regulations of the past or creation of some new system of protecting the business consumers of these products.

Congress has labored long and hard for the past several years to support the creation of competition in the domestic telecommunications equipment markets. These efforts should not be defeated now. We do not believe that this result is intended by the proponents of the pending legislation.

But are there benefits from passage of the proposed legislation which would justify the risks I have described? I do not think so. Only small gains could be made in U.S. exports in this area because of the limited nature of domestic manufacturing of key systems. A further opening of key telephone markets in Japan would have no real beneficial effect on the U.S. telecommunications equipment industry. Even AT&T would have limited opportunity to expand exports to Japan since AT&T has no technological edge in this equipment.

This is not one of the product areas where the U.S. has a competitive advantage which is being thwarted by market barriers in other countries. Rather, this is a situation in which the technology is well known and the competition is largely based on manufacturing efficiency and product quality, marketing and service factors. A major effort by the U.S. Government to promote the export of these products would simply divert resources from areas where the prospects for success on a large scale are more attractive.

For maximum impact on the U.S. trade deficit, legislation in the telecommunications area must focus on removing barriers to the importation of high technology U.S. products. The United States enjoys a significant technological advantage in sophisticated telecommunications equipment. A high priority must be assigned to the elimination of trade restrictions on these products. The technological superiority of these American products should translate into competitive advantage--guaranteeing sizeable demand in foreign markets. These goods are also capable of making a significant impact on the United States trade deficit because of the higher prices they command. The combination of potential demand and high price for these products should make them top priorities for U.S. trade efforts.

I respectfully submit that H.R. 3131 and the other similar telecommunications trade legislation now before Congress will not effectively promote the export of high technology telecommunications equipment. By including relatively low technology products in their coverage, such as key telephones, the pending bills dilute any impact on the trade balance.

Ultimately, the American consumer pays the price for well-intentioned but errant trade policies. The cost of telephone service has increased significantly since the divestiture of AT&T. That increase has been offset in part by a decline in the cost of telecommunications equipment. The competition brought on by divestiture and pro-competitive decisions by the FCC has begun to work. Prices are down, and product choice is up. The erection of U.S. trade barriers will, in many product areas, eliminate competition and, with it, the price reduction benefits now enjoyed by consumers. In some product areas, including key telephones, imports make the market work. Without them, we face a new monopoly situation. This is not the desired result, especially where significant export growth is unlikely regardless of the reduction of foreign market barriers.

In conclusion, Executone urges you to minimize the potential harm to U.S. businesses, workers, and consumers from any import restrictions and to maximize the impact of any telecommunications trade legislation by limiting its scope to high technology products. Those products have the greatest chance of penetrating foreign markets to help to ease our nation's trade deficit. Specifically, we ask that H.R. 3131 (and any other bill which moves forward in the Congress) be amended to exclude key telephones from their coverage, especially with respect to products on which import restrictions may be imposed. Executone would be pleased to work with the Members and staff of the Subcommittees to develop legislation to accomplish this purpose.

Thank you for this opportunity to present Executone's views.

Mr. **Florio**. Let me express my appreciation to the panel. Let me ask Mr. O'Connor in response to his concerns this whole leverage process is not going to work, that access will not be available to overseas markets, and that instead will only trigger reciprocal action, therefore cutting off the opportunity to import the products that you have talked about.

Is that your expectation as to what is going to happen?

Mr. **O'Connor**. If, in fact, the leverage is successful, then, of course, none of the implications available on the other side——

Mr. **Florio**. That is the hope, of course. As we have said today, the hope is this is not going to be cutting off market access to this market.

We are going to be inducing others to produce access for their market. The only way, the feeling is, is to at least threaten the closing of access.

Mr. **O'Connor**. We understand that. The problem we are facing, any good businessman has to worry about a contingency and what you are putting before us is a survival not just a mere contingency, if it goes the wrong way.

In addition, some of the effects that you are really truly after we feel do not apply directly to the key systems area and, therefore, we are asking for flexibility and discretion in how you apply the broad term of telecommunications.

Mr. **Florio**. You are writing off the capablity of American industry to be able to develop in that particular area so as to be competitive worldwide?

Mr. **O'Connor**. What we have done, we have taken a look at what that might mean. Let's assume, for example, that the 40,000-plus people who are now employed by the interconnect companies were to have to go away because over 50 percent of their revenues are generated by the key systems which are the high margin products in their basket.

So they would go away but necessarily there would be other people picking up that end which primarily would be AT&T. As we analyzed it, and we have gone through some details to look at what it would take to manufacture, most of us in my company have that background, it would require the addition in the work force of some 26,000 workers.

So you would have a net of 14,000 workers lost to the economy, positions gone, and traditionally what has been the effect in the past—and I am not sure we would see any reason for it to go away—is you would see increased prices due to a monopolistic effect and also the quality of the product may deteriorate somewhat.

Mr. **Florio**. Mr. Spievack, did you want to say something?

Mr. **Spievack**. Yes, Mr. Chairman. I think in adding to what Mr. O'Connor is saying, and putting it a different way, I think the underlying assumption of this and other legislation pending before the Congress is there is a broadly developed telecommunications manufacturing capability in the United States.

That simply isn't true for a whole variety of reasons that is too long to explain. If this legislation is to be adopted by the subcommittee, I think if there were some arrangement which could be written into it whereby discretion was given to the President, or the Secretary of Commerce, to avoid the triggering of retaliatory action if liberalization does not occur, so that it does not have an adverse impact on domestic employment and business here in the United States, I think that would be critically essential.

We represent an industry—Mr. O'Connor and I—that is largely dependent for all kinds of reasons on foreign products. That industry totally employs close to 150,000 people. If retaliatory action became necessary because of the lack of success in negotiating liberalized trading policies in foreign negotiations, the impact on domestic employment and business ventures here in the United States would be absolutely devastating and it would occur almost overnight.

Mr. **Florio**. Let me ask you and Mr. O'Connor and perhaps Mr. Anderson as to whether you put any credence in one of the representations made by the previous panel that this legislation might be of benefit in the instance of Japan as a result of the Japanese market's capability to increase more exports so as to be able to yield benefits domestically to Japanese competitors and presumably provide benefits to the industries or the interests that you represent so as to have a wider selection of products coming from overseas sources—not just for American exports, but also for domestic Japanese producers who have not got full access at this point.

Mr. **Spievack**. Well, you know, that is hard to say. I am not sure I personally know the answer to it.

There is no doubt about the fact that Japanese manufacturers are more and more establishing domestic manufacturing facilities in the United States. There is no doubt about the fact that some are leaving—a couple of them just in the past few months are terminating their operations in the United States.

One of the things that is generally not recognized is that the Japanese spent 20 years buiding a distribution facility here in the United States. It didn't just happen overnight and it didn't happen because of deregulation and divestiture as so many in Congress believe.

It has been a long-term process in which millions of dollars have been exported, have been invested. Hundreds of millions of dollars have been invested to support the type of distribution that is needed for medium-range technical products and high-tech products.

The industry that is most characterized by that which Mr. O'Connor and I represent is in that medium-range technical area. The more severe trade restrictions, I think, impact the higher tech areas in communications and computers as far as export in the United States is concerned.

Why U.S. manufacturing has not made an investment in the medium range is a very complex problem. But I think there needs to be a great deal more flexibility in legislation of this type because, if retaliatory action were to occur because the liberalization effort failed, then under those circumstances it would take perhaps 4 to 5 years to replicate the domestic manufacturing capability that is now being provided by foreign products. In that case a lot of employment and a lot of businesses would go under.

AT&T might be a benefactor and it might not be. The chances are that it would at least be a temporary benefactor, but it would not be serving Mr. O'Connor's company's interests nor most of the independent distributors that exist in the United States which are about 4,000 to 5,000.

Mr. FLORIO. Let me ask as a last question, a question to Mr. Wood and Ms. Easterling, with regard to one of the comments of the last panel. I glean, from the response to my question about unemployment, the sense of the witness that even opening up markets overseas and dealing with our dollar problems would not in any way change substantially the net drive of where the industry was going and where it was going was reduction in substantial numbers of people because that was regarded, if I understand the comments correctly, as the means for achieving a higher degree of productivity, gaining control over costs.

Now, that is not a very optimistic outlook from the standpoint of your statistics because what they seem to be saying is notwithstanding anything we do here legislatively, notwithstanding what we do negotiationwise in terms of opening up markets, notwithstanding anything the five major industrialized nations do with regard to currency imbalance, you are still going to continue to be on the wrong side of this development that is going to entail substantially fewer people working in this area.

Could I ask for your comments on that observation?

Mr. WOOD. Mr. Chairman, we have down throughout the years experienced reductions in the number of people that we represented in the telecommunications industry, like the television receiver industry, as a result of technological invasion, and there is no question that I think more jobs will be lost as a result of changes in manufacturing procedures, changes in technology itself.

However, when you take the situation that we are presently confronted with I think it is an altogether different situation. We are not just talking about job losses that result from technological change that most of us would not want to stand in the way of, we are talking about job losses that are resulting from massive imports.

It seems to me that what many of the companies are doing is taking the least part of resistance, that they are saying that it takes far too long for our Government to respond with appropriate action to deal with these kinds of problems and they set up their operations offshore.

Mr. FLORIO. But aren't they also saying deal with the imports on a competitive basis they have got to be more productive? They translate productivity into reducing costs.

They then say the most costly factor of production happens to be labor and, therefore, they make the argument that that is what they need to deal with the import problem.

Mr. WOOD. Well, it seems to me that you are certainly right. That we hear quite regularly. It seems to me, though, the fallacy with that is that this is where the market is. This is where the market is, in the United States.

Here is where they want to sell. No matter if it is AT&T, GTE or whether it is independent companies or Japanese or whatever, they want a part of the United States market.

Now, sooner or later if we are going to destroy, we are going to have to live continually with high levels of unemployment not just in the telecommunications industry, but for our whole economy, that sooner or later this market will be destroyed.

The standard of living in this country will ultimately be affected and we won't be those great consumers, those great buyers. But right now it seems to be that this is a quick fix to the problem. Let's locate the operation offshore.

We will still take advantage of the market as long as it is good. If I may, I would like to make one comment about I don't see the big problem that Executone would have and I don't say this lightly.

I think we represent some people that are employed for Executone, but I think there is a tremendous surplus of workers right now that were employed in the telecommunications industry in this country. Right now the Department of Labor is making some effort to try to establish a job bank to get information out on where their might be jobs.

No one knows of where there is jobs. There is just a tremendous surplus of telecommunications workers. There is a fair amount of excess plant capacity right now. Many plants are underutilized so it seems to me, given what this country has done in terms of developing this industry, given the technological invasion that has occurred in this country over the past 100 years, I can't see a problem in U.S. firms filling the void of these independent companies in this country.

Mr. **Florio**. Ms. Easterling, was there anything you wanted to add?

Ms. **Easterling**. I concur in what Mr. Wood has said. The statements made earlier by Mr. Hinds from AT&T were somewhat accurate in that, of course, we are not privy to all the information as to why the layoffs occurred; however, the best information given us is that there was a cash flow problem and that the quickest way to handle that was the elimination of 24,000 people, which certainly is regrettable.

To some degree, the statements you have made are also accurate in that the work is there. The workers are displaced, but the work is there. There is overtime being worked.

We don't really know what the solution is with AT&T. They have serious problems and as a result of that are inflicting some of those upon us.

However, with the rise in telecommunications imports to 21 percent, obviously foreign equipment is here in the United States. Someone is purchasing it.

Someone else is putting it in place and that is not the American workers.

Mr. **Florio**. Thank you very much.

Mr. Lent.

Mr. **Lent**. Thank you, Mr. Chairman.

I would like to ask Mr. O'Connor—and, incidentally, Executone is a company which is located in, as you say, Jericho, Long Island, which happens to fall within my congressional district, and I have had the opportunity to visit your office over there and I have spoken to some of your middle management people just a few years ago.

I would like to ask you, Mr. O'Connor, H.R. 3131 only requires, quote, equivalent market access, unquote. If, as you indicate, Japan has, in fact, opened its markets to the U.S. telecommunications industries, no retaliatory action would be taken.

Mr. O'CONNOR. I think we must have a misunderstanding. I was not talking about anything from us going to there in my terms. I was talking solely to the key system market in the United States We import Japanese products and it is under an Executone name.

As a matter of fact, what we do is we do the design and development here and then we go offshore in this particular case and have that particular product processed and manufactured and then we bring it back in and distribute it.

Mr. LENT. Well, my point is or my question is that if Japan opens its markets to American telecommunications products, we would not take retaliatory action against Japan.

Mr. O'CONNOR. We are for that. In other words, if that works, we don't have a problem.

Mr. LENT. Well, if the Japanese have their market open, there would be no retaliatory action and, therefore, Executone would not have any problems with this legislation.

Mr. O'CONNOR. I understand what you are saying. I guess there is no problem in understanding that.

Our point is that in the case of key systems if you are not effective in what you are doing because in essence for key systems you will end up losing 14,000 positions net.

You will lose 40,000 where people are in sales and distribution and services and you will pick up 26,000 in terms of the manufacturers of sales and distribution.

Mr. LENT. We would lose all these jobs only if retaliatory action had to be taken.

Mr. O'CONNOR. Absolutely right.

Mr. LENT. If the market is open and no retaliatory action need be taken, then we have no problem.

Mr. O'CONNOR. That is correct. If we had that, we wouldn't worry about this bill.

Mr. LENT. You are saying then that even though we might acknowledge for the sake of argument—I think there are some on this committee that would acknowledge it, that the Japanese have closed markets, either partially or entirely to American communications products, that we should do nothing.

Mr. RITTER. Will the gentleman yield for a moment? I think the gentleman is referring to Mr. Spievack's testimony who has said the Japanese have substantially reduced the barriers. Mr. O'Connor.

Mr. LENT. I thought I heard Mr. O'Connor say that.

Mr. O'CONNOR. No. I never said that, sir.

Mr. RITTER. You are just focusing on him because he is your constituent.

Mr. LENT. I would be much nicer to him if I thought he was right.

Mr. Spievack, on page 2 of the testimony you have submitted to the subcommittee you state that Japan has substantially removed barriers to trade in telecommunications. Is that correct?

Mr. SPIEVACK. That is correct.

Mr. Lent. Under this legislation, the Secretary is to determine if a foreign country is, quote, denying equivalent telecommunications market access, unquote.

Now, that means the opportunities for U.S. suppliers to provide telecommunications equipment and services in a foreign country that are substantially equivalent to the opportunities which foreign suppliers of that country receive in the United States. Is that a correct statement?

Mr. Spievack. That is correct.

Mr. Lent. Therefore, is it not correct that if Japan has removed its barriers to telecommunications from the United States that no trade action will be taken under the terms of this legislation against Japan or Japanese products under this bill by its terms?

Mr. Spievack. That is correct, with the exception of an area of the proposed legislation which is a bit confusing in that overall context, Congressman, because in the findings of this legislation it talks about the trade deficit and in the title to the bill it talks about identifying and reducing barriers.

I suppose that if under this legislation we are talking only about the identification of reduction of barriers as a basis for retaliatory action, we would have no problem in the Japanese context at the present time, as I understand the liberalization that has occurred there.

If, however, the continuance of the deficit would be a basis for retaliatory action under this legislation because of the findings, or would lead to an insistence for such action, then I think we would have a serious problem because we are not likely to achieve any kind of balance in the trade relationships between Japan and the United States in terms of that deficit in any near-term period.

Mr. Florio. Would the gentleman yield?

Mr. Lent. I will be happy to yield.

Mr. Florio. But, of course, you know the real concern of a lot of people is you can negotiate reduction of barriers and as we have heard here this morning, there are cultural problems, there are a whole lot of problems.

We have had agreements in the past and the bottom line is that market access is not enhanced. So the interrelationships between negotiations of barriers and the end result of negotiating down those barriers is to provide access.

So we can't be disingenuous enough to say that it is fine to have barriers reduced but if it means nothing that takes away the capability of doing anything about it. There is a very legitimate reason for linking the two parts of the end goal which is to provide access of our competitive productive markets of goods into the market.

Mr. Spievack. That is correct. That is the area that gives us most concern. I have seen cultural differences in products in the United States and I am sure you have. It took a lot time for foreign manufacturers to break that down.

As I understand the situation in Japan at the present time one of the failures of American business—and one of the difficulties of American business in Japan—is the capital cost of setting up operation for distribution and marketing in Japan.

American manufacturers under existing economic conditions have an enormous problem in terms of the necessity of setting up distribution and marketing organizations in a country like Japan. It is going to take a lot of time and it is going to cost a lot of money.

There will be a lot of loss. American manufacturing does not exist that way. That is one of the reasons why there is some hope in the manufacturing community right now that the $300 million program being suggested by the President might be available for that kind of activity.

Japan, for its own business risk reasons, decided to take that risk 20 years ago and Japan has lost hundreds of millions of dollars in the United States in getting itself to the place where it has 20 percent of the telecommunications market of the United States.

But U.S. consumers would not deal with Japan unless Japan had technical sales and training, support and spare inventory and warehousing and everything right here in the domestic United States. Japan tried that and lost 17 years ago. The same thing has to be reestablished in Japan and the tendency is to believe that NTT will simply be the buyer and the market condition has been established that is equivalent to the United States that says, in effect, NTT will buy some things—but not an awful lot.

If you really want to do business in Japan, United States manufacture, you have got to establish your own distribution in Japan. And that is true of every high-technology product. If you can't support it, the consumer can't use it; therefore, it won't be bought. So marketing breaks through that cultural barrier and that is enormous dollars in capital investment for U.S. manufacturing and for the midrange and small manufacturer, that capital simply isn't available.

Mr. FLORIO. Thank you very much.

The gentleman from Pennsylvania.

Mr. WOOD. If I may, Mr. Chairman, could I make——

Mr. FLORIO. Will the gentleman yield?

Mr. RITTER. Certainly.

Mr. WOOD. It seems to me, Mr. Chairman, that we hear all kinds of excuses as to why it will take so long or forever to penetrate the Japanese market. It seems that we ought to be able to employ a little bit of the ingenuity they have employed over the years.

As an example, they got into our automobile market by using the distribution system in this country. Why can't we make use of some of the distribution systems over there?

We talk about access. That could be one thing that could be evaluated. It does not appear to me that everything would have to be reinvented, that much of the procedures that they took advantage of in this country we could take advantage of in Japan.

Thank you.

Mr. FLORIO. Thank you.

Mr. RITTER. Thank you, Mr. Chairman.

Mr. Spievack, in your testimony, you mentioned that despite the Japanese population being approximately half ours, their purchases of telecommunications equipment run about 15 times less than ours—$4 billion as opposed to $60 billion.

Mr. SPIEVACK That is correct.

Mr. RITTER. First of all, I am not sure how that figure is derived, and I have a second part——

Mr. Spievack. 4.2——

Mr. Ritter. My next question is, What is the growth rate of those purchases in the Japanese market?

Mr. Spievack. The growth rate is much like ours. Anywhere from 2 to 4 percent a year in total market.

It is a fascinating phenomenon, but telecommunications growth rates worldwide fairly well track the GNP of most nations. That is certainly the case. In some years, if we are very lucky, in telecommunications in the United States, the growth of it will exceed GNP by 1 or 2 percent.

Mr. Ritter. Even though the Japanese value of purchases is 15 times less than ours, their growth rate isn't any different than ours, which means that the market expansion of the United States is 15 times, basically, the size of the market expansion in Japan.

Mr. Spievack. In constant dollars, that would be true.

Mr. Ritter. Could you explain why the Japanese market is so tiny in comparison?

Mr. Spievack. Well, one reason is that less territory is involved, substantially less territory. When you are going across a vast country like the United States, in so many sparsely populated areas, that is a lot of money to install——

Mr. Ritter. But in a country that is so completely wired as Japan seems to be, it would seem to make up for territory, just the number of instruments that are out there.

Mr. Spievack. Well, it doesn't. I am not sure I know all the reasons. I know territory is one. I know that perhaps under the spur of aggressive competition, the growth rate could be larger—whether it would be substantially larger, as my testimony indicates, there are no market studies to show.

Mr. Ritter. According to what you are saying, I mean $4 billion is still a lot, but——

Mr. Spivack. It is not a lot.

Mr. Ritter. Well, $4 billion is——

Mr. Spievack. It is a lot to me and you, but not a lot to an industry.

Mr. Ritter. But, according to what you are saying, the size of that market is relatively inconsequential. If the growth rate in their market is the same as ours, it is therefore inconsequential and we shouldn't even be bothering with this subject here.

Mr. Spievack. No; that is not true.

Mr. Ritter. The whole thing seems to be a symbolic exercise, according to these figures.

Mr. Spievack. No; it is not.

Mr. Ritter. Where do these figures derive from, by the way?

Mr. Spievack. They are from the Department of Commerce, figures from the Japanese studies. Mr. McDonnell indicated in his testimony that the size of the Japanese market was only between $4 and $5 billion a year—and that is correct.

The reality, Congressman Ritter, is that worldwide, the United States is No. 1 as a market.

Mr. Ritter. Interesting.

Mr. Spievack. Worldwide, the U.S. consuming population has been conditioned to a level of consumption that is not achieved in any other nation of the world, and so, worldwide, every nation is focused on the United States as the major market for a manufacturing capability that outruns the domestic popuation of any country in the world except the United States.

Mr. Florio. Will the gentleman yield?

Mr. Ritter. Yes, I yield.

Mr. Florio. I thank the gentleman for yielding. As I understand some of the discussions going on with respect to our trading partners, Europeans as well as the Japanese, they are really designed to induce action in those markets to change the prevailing philosophy.

The beneficial side of the Japanese savings rate for the Japanese is offset by the absence of consumption on the Japanese side, which might very well result in greater market capability.

Mr. Spievack. That is right.

Mr. Florio. That, of course, is an internal policy decision the Japanese made, and the Europeans have made.

Mr. Spievack. The Europeans haven't made it.

Mr. Florio. My understanding of what we will be discussing with the Europeans is efforts to have them pump up their economy to create greater demand, which would provide for greater development of the markets for potential penetration by our industries, other things being equal.

But what we are seeing across the board, around the world, is that we have one economic policy that is creating this great market that we have, one approach I guess you would call it, notwithstanding supply-side economic rhetoric, we are talking about demand-side, consumption-side economic philosophy prevailing, whereas everybody else, for whatever reasons, and they make their determinations of what they think is in their economic well-being, are going from the opposite side trying to, in a sense, stifle consumer demand so as to induce greater export capability and restrict domestic markets, less so in the more formal way than we have been used to in the past, but nevertheless, reducing domestic markets is the bottom line.

I come back to my point in the earlier dialog that if we are interested in penetrating overseas markets, we have to look to the bottom line and that bottom line being direct access rather than formal barriers being removed, because you can remove all the barriers in the world, and it won't make any difference in terms of our ability to penetrate those markets.

Is that a fair statement?

Mr. Spievack. That is a fair assessment. I can't disagree with that.

Mr. Florio. I thank the gentleman for yielding.

Mr. Ritter. I thank the gentleman for his description here, but when you start talking about the trade agreements, the barriers, and the implementation of the barrier reduction plans, is that going to assist our workers here in the telecommunications industry to gain new jobs or gain their job back?

Mr. Spievack. Well, that is a really complex question, Congressman. I agree with a lot of what Mr. Wood said, the movement of U.S. industry offshore is a problem of critical dimension to the United States, and it is one that is not being addressed by this administration or any party, and has not for a number of years.

We take pride in the fact—I think we take pride in the fact—that we are or have become a service economy, but the reality is that we are losing our strength as an industrial economy, and from my personal point of view, that is an enormously dangerous posture to find one's self in.

A lot of the import problem is being created by U.S. manufacturing offshore. Now, there is just no doubt about the fact that American labor can't compete against $25 a week labor—you can't do it.

We may be—it is ludicrous and ironic, but we are a capitalist country, and we pride ourselves on that—one in which American business seems to be seeking surplus labor markets under a kind of a Marxian theory.

On the other side of the coin, automation is affecting the rest of the world, and I think we may get to the place one of these days if not—if we haven't already arrived at it—where we are going to have to look seriously to the extent to which we want our companies offshore and begin to redress that problem.

Many companies are moving to the Far East and have done so. There is a sleeper in this game. No one has awakened to the reality that the new Caribbean Basin policies will in the next 10 years move major industrial concerns out of the United States into the Caribbean area, particularly Panama and Costa Rica.

That will be much closer to the United States, but it will still be imported products.

Everything is interrelated, there are linkages everywhere.

Mr. RITTER. If I might interrupt, I think your discourse is quite fascinating, but if I might just get from Ms. Easterling and Mr. Wood their view on the jobs picture as it might be affected by equal access, that would be helpful.

We are beginning to boil down to the fact that the jobs picture, at least some of the testimony is coming out that the jobs picture is not in any vast way going to be affected by equal access.

Ms. EASTERLING. You are speaking, when you speak "equal access", you are speaking to——

Mr. RITTER. Well, what H.R. 3131 attempts to do.

Ms. EASTERLING. "Equal access" is a telephone company term.

Mr. RITTER. Oh, excuse me.

Ms. EASTERLING. So, that is my reason for hesitating there. I think that if in fact we begin to export, we would also be opening, or reopening some manufacturing firms that we have seen closed like Western Electric—Bell Labs is almost nonexistent and was one of the great inventors of telecommunications equipment.

I think that it would give American business a greater market share of the foreign countries and allow us to put our workers to work to produce those products for foreign countries.

Mr. RITTER. Mr. Wood.

Mr. WOOD. Yes, I firmly believe that if this bill can be enacted into law and hopefully in a relatively short period of time, because I think most of us in this room are well aware of the extent of the problem that we are faced with, as I said today, reporting additional job losses from the spring, I was here before Chairman Florio's committee—I think that this bill certainly is a step in the right direction.

If it is enacted into law and we can get remedial action taken if and when needed, that this would lead to a restoration of jobs. I believe if the passage of this bill takes considerable time or if the bill was watered down, in my view, to the extent that discretion was left with the President to take action, I believe that we will continue in much the same course that we are on now, with more and more firms moving offshore, with the telecommunications industry resembling basically the television service industry.

Mr. RITTER. Thank you.

I might add that what it seems is that this bill is a step in the right direction, but we are looking at a problem that is miles wide. Thank you, Mr. Chairman.

Mr. FLORIO. Thank you very much.

Mr. O'Connor.

Mr. O'CONNOR. One more comment, Mr. Chairman.

We seem to focus on the fact that these products are all labor-intensive. I would like to tell you that in a lot of telecommunications, the products could be in the neighborhood of $1,500 to $2,000 unit price, and have less than 2 hours of labor in them, and you would still find a 20-percent differential in Japanese versus United States soil almost across the board, so what I am pointing out there is it is not just labor content.

They are doing exceptionally much better jobs in materials areas, also.

Mr. RITTER. Thank you.

Mr. FLORIO. Let me express the subcommittee's appreciation to this panel for its participation and thank you very much for your testimony today.

The subcommittees—I would ask unanimous consent that Chairman Dingell's remarks be included in the opening portion of the hearing. [See p. 239.]

Mr. FLORIO. I would announce that tomorrow at 10, the subcommittee will meet for the purpose of considering marking up of this legislation. The subcommittee, if there is no further business to come before the subcommittee, the subcommittee stands adjourned.

[Whereupon, at 2:45 p.m., the subcommittees were adjourned.]

[The following statement was submitted for the record:]

Statement to the
Subcommittee on Telecommunications, Consumer Protection & Finance
and the
Subcommittee on Commerce, Transportation and Tourism
of the
House Energy and Commerce Committee
on behalf of
The Committee on Communications and Information Policy
of the
Institute of Electrical and Electronics Engineers

October 1, 1985

This testimony is submitted by the Committee on Communications and Information Policy (CCIP) of the Institute of Electrical and Electronics Engineers (IEEE). The IEEE is the world's largest engineering society, with nearly 260,000 members worldwide, 214,000 of whom live and work in the United States. Approximately 82% of our membership is employed in industry, 8% in academic institutions, and 10% in the various government laboratories and agencies. The IEEE Committee on Communications and Information Policy is vested with authority to develop the Institute's communications and information policy; and, once that policy is adopted by the Institute, our committee is one of the major mechanisms by which the policy is voiced in public.

The CCIP wishes to add its support to H.R. 3131. With such a diverse representation of membership in the IEEE, discussions within this committee on previous trade legislation of a protectionist nature have failed to find a consensus. This has been, in part, because there are several trade surplus sectors in the telecommunications area, and there would be a very real prospect that protectionist measures would negatively impact related trade surplus areas.

This legislation, with its focus on opening foreign markets through negotiations rather than closing U.S. markets, is a constructive approach that we believe will be of lasting benefit to this country. Nevertheless, CCIP believes there are limits to openness that are only tangentially mentioned in the bill. Not only the U.S., but also every other country as well must retain the ability to maintain its telecommunications infrastructure in the event of a national emergency. When a major manufacturer, such as AT&T, announces the termination of manufacture in the U.S. of certain consumer premises equipment in favor of manufacture offshore, the U.S. capability of self sufficiency in the event of a national emergency is lost. Equally, it would not be logical to expect another country now self-sufficient as are Japan, France, and many others, to give up similar national goals in favor of purchasing from U.S. factories. Thus, neither U.S. nor foreign markets are likely to be completely open for this reason.

We consider, therefore, that the pragmatic approach of the proposed legislation, which recognizes a range of alternative responses to the imbalance of trade in telecommunications from tariffs to curtailment of interconnect authorization, represents a valuable contribution to dealing with the realities of this nation's economic and security interests. We regret the need to consider such restrictions, but recognize the limits to the goals of the legislation that are imposed by other countries' equally logical wish to preserve their vital infrasturcture, and believe that the United States must do the same.

To preserve a national base for the telecommunications manufacturing industry requires a depth of manufacturing in this country by a foreign supplier far greater than customarily undertaken in other industries such as, for example, in the automobile industry.

CCIP is concerned, therefore, that the exemption of "equipment manufactured in the U.S. by a foreign supplier" (Sec 3, Definitions, ¶2, page 6 at line 15) will not achieve its purposes in a national emergency if any critical element or task must be sourced outside the U.S. For this reason, we recommend the addition of another paragraph to this section immediately after ¶2 as follows:

> For equipment to be considered as "manufactured in the U.S., all components, subassemblies, and critical elements must be manufactured also by at least one U.S. located manufacturer, all information for assembly, test, and commissioning must reside at a U.S. location, all computer and microprocessor stored programs used in the equipment or its subelements must be available in the U.S. in the form of source code sufficiently annotated to enable computer programmers to modify such programs, and enough skilled personnel to accomplish such tasks, and a cadre of management personnel sufficient to run the manufacturing plant in a national emergency must be U.S. citizens or permanent residents.

We consider it appropriate that the proposed legislation addresses both "telecommunications service" and "telecommunications equipment." Narrowing the terms of the legislation to either one or the other would not give recognition to the potential tradeoffs between the two in individual country negotiations.

The definition of "telecommunications service" Sec. 3,¶(7) at line 23, is incomplete as there are other regulated services which should be covered besides "telephone service." U.S. companies already provide abroad such services as value added networks, enhanced services, intelligent buildings, competitive long distance services, and others not yet foreseen. Older services such as "telephone service" are often a function of the national government (the PTT ministries) or of a monopoly chartered recognized private operating agency, and thus neither accessible nor of interest to U.S. companies. Because of rapidly changing technology, we would consider it inappropriate to define "telecommunications service" narrowly, preferring to let the plain language definition of "telecommunications" rule at the time of regulatory action.

Equally, the definition of "telecommunications equipment" omits forms of transmission and switching used for these other data and record services (e.g. microwave radio, fiber optics, modems, etc.), and newer forms of transmission and switching used for voice services such as cellular mobile radio, paging, etc. Again, changing technology would make narrow definitions of these equipments inappropriate at some future time, and the wording of the legislation should only make clear that all forms of telecommunications (voice, image, character, data, etc.) as may be from time to time available in the future market place are to be included.

In conclusion, we support the intent of H.R. 3131 particularly its call for use of negotiations to improve access to overseas markets, and believe, if enacted, it will be a positive step in furthering world trade, in both equipment and services. Such amendments as have been proposed reflect only the need for the U.S., as for other soverign nations, to protect their own vital interests in the event of national emergency.